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THE FUTURE OF U.S. ECONOMIC RELATIONS IN THE WESTERN HEMISPHERE

HEARING

BEFORE THE

SUBCOMMITTEE ON WESTERN HEMISPHERE, PEACE CORPS AND NARCOTICS AFFAIRS

OF THE

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THE FUTURE OF U.S. ECONOMIC RELATIONS IN THE WESTERN HEMISPHERE

TUESDAY, MAY 20, 2003

U.S. SENATE,
SUBCOMMITTEE ON WESTERN HEMISPHERE,
PEACE CORPS AND NARCOTICS AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 2:38 p.m., in room SD–419, Dirksen Senate Office Building, the Hon. Norm Coleman (chairman of the subcommittee), presiding.

Present: Senators Coleman, Enzi, Dodd, and Bill Nelson.

Senator COLEMAN. This hearing of the Senate Foreign Relations Subcommittee on Western Hemisphere, Peace Corps and Narcotics Affairs on "The Future of U.S. Economic Relations in the Western Hemisphere, Challenges and Opportunities for American Agriculture," will come together.

And I would like to extend, by the way, certainly a welcome to our guests, our panelists, who I will introduce in a second. I would also send a special welcome to the Brazilian Ambassador. I understand Ambassador Barbosa is here.

So, Mr. Ambassador, thank you for being here today.

I will begin with an opening statement, and I expect my friend and esteemed colleague, the ranking member, to also be here and would give him an opportunity. And then other Senators may be here, and then we will introduce our witnesses.

I want to begin by welcoming you all here today and given the number of witnesses who deserve to be heard and the ambitious agenda we are about to undertake this afternoon, I will be brief in my opening remarks.

Let me just say that I am excited about the work we will be conducting in this subcommittee and certainly honored to serve as its chairman. I am especially pleased that my first hearing as chairman is on a topic of such importance to the people of my home state, the State of Minnesota. The purpose of this hearing is to determine exactly what opportunities exist for enhanced trade in agricultural products between the United States and countries in the Western Hemisphere and what challenges and obstacles hinder development of this expanded trade.

I came to the U.S. Senate knowing firsthand the benefits of trade because I represent the great State of Minnesota. For those who do not know it, Minnesota ranks in the top ten among states in nearly every commodity that can be produced in our climate and ranks seventh among states for agricultural commodity exports. The bottom line is: We produce more than we can consume in this country, and so we need access to foreign markets if our farm families are to earn a decent living. In my view, and I think the view of others here, there is great risk in not moving forward and opening up new markets to U.S. farmers and ranchers.

I believe in the promise of trade, but you cannot just sell promises. You need to deal with the realities of trade. And over the last decade, outright enthusiasm for trade among farm families in Minnesota, and I expect all over the country, has been tempered by the failure of our trading partners to live up to their end of the bargain.

United States farmers and ranchers had always been the bulwark behind trade liberalization. They have always tipped the balance in this country in favor of trade. Last year's vote on trade promotion authority underscores this point. Accordingly, it seems to me that the ability to successfully conclude any future trade agreement hinges on two things: First, the United States absolutely must hold our current trading partners to their word under existing trade arrangements. The United States took the right action with regard to the European Union's biotechnology policy, and President Bush and his trade team are to be commended for that. It was the right thing to do.

Now, a tough response is also warranted against Mexico's actions that amount to unilateral renegotiation of NAFTA. Senator Grassley and many of the farm groups have made this point, and I made the same point last week when I visited with a number of Mexican Senators. America's strong relationship with our Mexican friends is far too important for the deterioration, I fear, would result if there is this breakdown in trust.

Of course, the U.S. Government alone is not solely responsible for ensuring that rules are followed. I understand that Monsanto Corporation will make an important announcement at our hearing today concerning what it plans to do on the issue of Roundup Ready patent enforcement in places like Brazil.

We currently have an unacceptable situation. U.S. farmers pay anywhere from $9.30 to $15.50 per acre for Roundup Ready soybeans. Brazilian farmers, apparently, also use Roundup Ready soybeans but pirate the technology, giving them a competitive advantage. Testimony today will suggest that an estimated 20 to 30 percent of soybeans planted in Brazil are Roundup Ready. The irony is Brazil then exports soybean products to the United States, some of which are surely biotech, in direct competition with my farmers who are paying these tech fees.

Even more ironic, while the EU has a moratorium on the approval of biotech agricultural products and seems to actually encourage nations in Africa, ravaged by starvation, to reject our offer of food aid, the EU is likely buying Brazilian biotech soybeans under the guise that they are non-biotech; yet, again, giving Brazil a competitive advantage.

I look forward to hearing Monsanto's announcement during this hearing on how it intends to deal with this problem.

The second thing we need to do to successfully conclude any future trade agreements is to make sure we maintain the confidence of American agriculture in these negotiations. U.S. farmers and ranchers rightfully expect their country's negotiators are working to get the best deal for American agriculture, that the deal is going to benefit U.S. farmers and ranchers, and that their concerns, which we will hear about today, are being addressed.

As we are moving forward on FTAA, CAFTA, and the WTO, it is very important that a negotiating team routinely looks back to make sure that American agriculture, and those like me who care deeply about agriculture and rural America, are still following. Fortunately for U.S. negotiators, all our farmers and ranchers are asking for is to compete on a level playing field.

I believe President Bush and his very capable representatives appearing before us today understand these points, and that makes me confident that trade and all the promise it offers America's farmers and ranchers will not be lost.

Before I go on and recognize other Senators, it is my understanding that the Department of Agriculture has information concerning a BSE case in Alberta, Canada. As those of us in this room well know, the United States has the safest meat supply in the world. We have a pretty rigorous testing and inspection system. We also have in place a system where the USDA works closely with states to ensure imported meat and animals are safe and free of disease. The news today of this case only underscores the need to build on this rigorous Federal/State system to ensure that our meat continues to be the safest and highest quality in the world.

Accordingly, after my opening remarks but before we move on to the topic of this afternoon's hearing, I would like to ask Dr. Penn what USDA knows about this situation, and what course of action the Department has taken.

At this time, Dr. Penn, before we begin the substance of this hearing, because of the importance of this issue I would kind of digress from the schedule, and ask you to please tell us a little bit about this case and what course of action the Department is taking.

Dr. Penn.

Dr. PENN. Thank you, Mr. Chairman. I would be pleased to give you a brief update. The Canadian Government this morning informed us that they had indeed found a confirmed case of BSE, one animal in a 150-cow herd. The remainder of the animals in the herd have been slaughtered and are being tested. This was an 8-year-old animal. They know where the animal had been for 3 years prior to its being slaughtered, and they are in the process now of trying to trace and find where the other animals came from in the herd.

We think this is an isolated incident, but Secretary Veneman announced, just within the hour, that she has temporarily closed the border to movement of live ruminants. We will await the test results from the other 150 animals. If all of those tests prove negative, then we can probably reopen the border fairly quickly. If not, then we will have to evaluate the situation.

But that is pretty much, Mr. Chairman, the state of play of things right at the moment.

Senator COLEMAN. All right. Dr. Penn, we have—it is one animal that we are talking about right now?

Dr. PENN. One animal.

Senator COLEMAN. OK. Thank you, Dr. Penn.

I would like now to turn to my colleague, Senator Enzi, for any opening statement.

Senator ENZI. Thank you, Mr. Chairman. And I particularly thank you for diverging here for a moment to get an update on that. It is particularly critical to all of the states and our state food supply, but also to the future production of livestock in the United States that that not make it into the United States, and so I appreciate the diligence and will be also looking for some followup on that.

And I thank you for holding this hearing to look into the future of economic relations in the Western Hemisphere. I think it is clear that the economies of the region have an impact on our economy. It has an impact on our confidence in international trade, and it even has an effect on our security. When an economic crisis occurs, our immediate thought is how it will impact our communities.

Considering the increased globalization of the world, it is no wonder that an oil crisis, political upheaval, humanitarian emergency, or a natural disaster in the Western Hemisphere causes a severe reaction in the United States.

Today we are hearing from a number of witnesses who represent different sectors of the agricultural community. In Wyoming, agriculture is an integral part of the state's identity. We are known as the Cowboy State. We have that on our license plate and we are associated with cattle, and ranches, and open space. Some of you may not know that we are also a sugar state and a wheat state.

Agricultural trade within the Western Hemisphere directly affects the people of Wyoming. It affects the ability of our neighbors and friends to stay in business, and I believe the relationships that exist between the countries in the Western Hemisphere is key to the future of our region.

Last January I had the opportunity to travel to Brazil for the inauguration of Brazil's new President, Lula da Silva. It was a truly international gathering with representatives from nations throughout the hemisphere and, in fact, throughout the world, but with a concentration from this hemisphere. I was there with U.S. Trade Representative Robert Zoellick, and Ambassador John Maisto and, of course, our Ambassador to Brazil, Donna Hrinak.

And many heads—so many heads of government attended that it became kind of a conference of sorts. We had an opportunity every hour, on the hour, to talk to either a head of state from one of these countries or members of the cabinet from Brazil, and it was a great opportunity to find out what each country was doing about challenges facing the region.

A few of the countries were, Peru, Bolivia, Uruguay, Colombia and El Salvador. We talked about many of the trade and economic issues that, I am sure, we will hear about today. Each nation had its own worries and concerns, but many of their issues overlapped and involved each other. And it was a tremendous opportunity for us to talk about the World Trade Organization meetings and European meetings that would be coming up, and the way that this hemisphere could work together to solve problems that we have with exporting our agriculture to the rest of the world.

These overlapping issues of trade and securities are a reason that this hearing is so important. I really thank you for holding this hearing. I look forward to hearing the testimony of the witnesses and seeing how they will affect agriculture in the United States.

Senator COLEMAN. Thank you very, very much, Senator Enzi.

I would now like to recognize the first panel at the table. The Honorable J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services at the U.S. Department of Agriculture, and the Honorable Allen Johnson, Chief Agriculture Negotiator for the Office of the United States Trade Representative.

Welcome, Dr. Penn, and please begin when ready.

STATEMENT OF HON. J.B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Dr. PENN. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the subcommittee today. And as Senator Enzi noted, this is an opportune time for a hearing to examine the opportunities and challenges in the Western Hemisphere.

There are numerous forces, some new and some long in the making, that today confront the agricultural and food industry. How we handle these challenges as an industry, as individual producers, and through government policy, will determine the health of our industry early in the new century and for years to come. These forces include the always larger geopolitical and macroeconomic setting over which we have little control but with which we must deal since they importantly affect critical variables such as access to market and the value of the dollar relative to other currencies.

Other forces more nearly under our ability to influence, if not to entirely control, include national policies for the farm sectors, new trade agreements, such as the Doha Development Agenda, the Free Trade Area of the Americas, the Central American Free Trade Agreement, and a spate of bilateral agreements; the introduction of several new technologies related to computers, satellites, and software that combine to enable precision farming, and then, perhaps, the most promising technology ever, biotechnology for agriculture.

The trade and new technology forces are strongly interconnected as is clearly illustrated with the difficulty in gaining acceptance of biotechnology, especially in the European markets. And we are constantly reminded that the business of agriculture and food is extremely dynamic. Nothing stays the same for very long.

A few examples illustrate the point: Not many years ago the Soviet Union was a major purchaser of grains from the world market, and it disappeared a dozen or so years ago. The Black Sea region emerged last year as a significant supplier to the global grain markets and could well be an enduring presence. And in our own hemisphere, Brazil and Argentina now have combined to surpass the U.S. in oilseed production. In China, the most populous nation, now is a member of the WTO and a major force in the global markets both as a buyer and as a seller.

The successful entities in this business are the ones that are able to adjust and adapt most to the rapidly changing conditions and to these long-term trend shifts.

I want to focus my remarks today around the trade technology competitiveness intersection. At the outset, we need to remind ourselves why there is so much focus on trade, especially in the food and agricultural industry. And that is because it is so critical to the current and future health of this industry. We are all generally familiar with the broad outlines of the importance of the foreign markets to our farmers and the entire Ag sector, but the key points bear repeating.

The output from roughly one of every three acres of major field crops is exported. Total export sales this year are forecast to be $57 billion. That is well over a fourth of the total of $201 billion of gross receipts from all crop and livestock sales. And for many individual crops the importance of the foreign markets are much greater. We export 54 percent of the cotton, 49 percent of the wheat, 44 percent of the rice, 37 percent of the soybeans, 20 percent of the corn, and for all of the specialty crops, like almonds and sunflowers and others, the numbers are exceedingly important.

Well, now, the above numbers are direct exports of the commodity itself. We also now export significant grains, grass, and oilseeds in the form of livestock products. At the beginning of the 1990s, we exported relatively few livestock products, the equivalent of only about 2 percent of all of our grain and oilseed production. Today, we export over $9 billion of livestock products representing the equivalent of fully 5 percent of our entire grain and oilseed production. In fact, the composition of our food and agricultural exports has shifted significantly in just the past decade. Today the high-value and value-added products comprise 63 percent of the total sales, with bulk commodities comprising the remainder.

Having the current combination of domestic and foreign markets is critical to both annual farm income and the balance sheet of the farm sector. Without the foreign markets and without their expansion over time, agriculture and the food industry would have significant excess capacity not only in farmland, but also in storage, transportation, and processing facilities. We would have unneeded assets, assets out of location, and certainly assets with declining values.

In addition to the significant contribution to farm income, trade also means jobs. Food and agricultural exports today support 750,000 jobs. Every $1 billion in additional agricultural exports adds 15,000 jobs. Exports support jobs on the farm, in rural areas, and all across the food system. And this trade also stimulates economic activity well beyond the farm gate. The $57 billion in agricultural exports this fiscal year will create an additional $84 billion in supporting economic activities, to harvest process, package, store, transport, and market all of these products.

Another dynamic closely related to both current farm income and the balance sheet is the constantly shifting balance between production capacity and market utilization. Long-term productivity growth in American agriculture averages about 2 percent a year, 50-year trend. That means that we can produce 2 percent more food each year with a given set of resources. In contrast, the domestic market requires only about eight-tenths of 1 percent more food each year due to the slow growth of our population. So it is very obvious over time that we must have access to the growing foreign markets if we are to avoid the emergence of significant excess capacity.

It is against this backdrop, Mr. Chairman, of the importance of global trade to U.S. agriculture and the food system, that I want to focus more closely on the importance of trade with our NAFTA partners, since the focus of this hearing is on this hemisphere. The NAFTA was concluded in 1993 and implementation began in 1994. We now have a full 8 years experience, ample time to see some very clear results.

Exports of food and agricultural products from the United States to our two NAFTA partners reached a record $15.9 billion last year, and that is a doubling since the signing of the agreement in 1993. In 2002, Canada surpassed Japan as the leading export market for U.S. agriculture, with our exports valued at a record $8.7 billion. U.S. exports to Mexico have now reached $7.3 billion, almost double the amount the year before NAFTA's implementation.

The benefits of NAFTA extend well beyond the direct expansion of commercial trade. They extend to economic development, political stability, pluralism, and immigration. And in the end, consumers in both countries are the ultimate beneficiaries with important contributions to price, cost, choice, quality, and availability.

And I see that my time has expired, but let me just make a couple of other points in conclusion: One, I think it is important that we recognize in the current trade environment the necessity to maintain the markets that we have already established. As the trade volumes expand significantly, the possibilities for commercial and other difficulties arise. This is especially true as the traditional barriers of tariffs and quotas diminish in importance, pushing new barriers into prominence, such as sanitary and phytosanitary regulations, and other technical barriers.

The current difficulties with China over TRQ implementation and biotechnology regulations, and our difficulties with Mexico over a variety of matters, serve to illustrate this point. We at USDA are certainly finding this to be the case. We are devoting an increasing amount of resources to this task of market maintenance, and we are strengthening our cooperation with the private sector in doing this.

The widely reported difficulties with China and Mexico serve to emphasize another point, and that is that we are closely monitoring these agreements. We intend to ensure that they are enforced. And, Mr. Chairman, as you said a deal is a deal, and we expect our trading partners to fully live up to their end of the bargain.

Finally, let me just conclude by making a couple of points about competitiveness. The opening of new markets is a necessary first step, but we have to constantly strive to remain competitive in all of our markets. There is a growing concern today throughout the agricultural community as we see the emergence of new suppliers, such as the Black Sea grain producers, and being competitive is going to be all the more important if we are successful in leveling the playing field with the new trade agreements.

This productivity in American agriculture today is due to past research and development. It is due to the investment of our producers in all of the new technology and management techniques.

And with our abundant natural resources and accommodating climate, American producers have a highly competitive unit cost for quality products at the farm gate.

And then our public sector has made a significant investment in infrastructure, our roads, waterways, port facilities, that enable the movement of these low-cost products from the farm gate to the ultimate consumer. And today, as I noted, there is concern about both areas of competitiveness, at the farm gate and beyond the farm gate. And we need to pay special attention to this if we are to remain competitive in the 21st century.

Mr. Chairman, that concludes my remarks. Thank you again for the opportunity to participate in this hearing. And I would be pleased to respond to questions when you get to that point.

Senator COLEMAN. Thank you very much, Dr. Penn. And I do note in your written comments you had some more extensive remarks relating to CAFTA and FTAA, and those remarks will be included in the record.

Dr. PENN. Thank you.

[The prepared statement of Dr. Penn follows:]

PREPARED STATEMENT OF J.B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. Chairman, members of the subcommittee, I am pleased to come before you today with Ambassador Johnson to discuss the challenges and opportunities for agricultural trade in the Western Hemisphere. I would like to begin by discussing the importance of trade for U.S. agriculture, and the role that trade agreements can play in helping to increase export opportunities for our food and agricultural sector within this hemisphere.

IMPORTANCE OF TRADE

President Bush has made it clear that agriculture's role in any trade agreement is critical. Because maintaining existing export markets and creating new opportunities are essential to the prosperity of American agriculture, trade issues are paramount and receive the highest attention at all levels of the Department. Last month, Secretary Veneman hosted the Russian Deputy Prime and Agriculture Minister to discuss high priority issues, including a resolution to a long-running dispute that severely damaged our poultry exports. Recently, Ambassador Johnson and I traveled to Mexico as part of a U.S. delegation to address the agricultural community's concerns with that country's many impediments to U.S. exports. And later this month, I will travel to Brazil to get a first-hand look at the production capacity of that key competitor, as well as meet with my Brazilian counterparts to discuss issues of mutual concern.

All of us throughout USDA know that export success is an important determinant of our farm sector's annual cash income. Approximately one-third of our production capacity is devoted to export sales. Exports heavily influence asset valuation and the balance sheet.

Trade stimulates economic activity beyond the farm gate. In fiscal 2003, U.S. exports are expected to reach $57 billion. This trade is expected to create an additional $84 billion in supporting economic activities to harvest, process, package, store, transport, and market those products. Most of these activities occur in the non-agricultural sector of our economy. Traditionally, bulk commodities such as wheat, rice, coarse grains, oilseeds, cotton, and tobacco accounted for most U.S. agricultural exports. However, since the early 1990's, U.S. exports of high-value products—meats, poultry, live animals, feeds, hides and skins, fruits, vegetables, processed foods and beverages—have expanded rapidly and now exceed the value of bulk commodity shipments. High-value product exports generate even more supporting economic activity than bulk shipments—roughly $1.4 billion for every $1 billion exported.

In addition to its income effect on the farm and food sector, trade means jobs. U.S. food and agricultural exports support 750,000 jobs. Every $1 billion in exports creates 15,000 jobs. Exports support one-third of all jobs in rural communities. Some of the jobs are on the farm, but most are in trade and transportation, services, food processing, and other manufacturing sectors.

For U.S. agriculture to build on this success, we must recognize and adapt to the changing global market landscape. Developed country markets, such as Japan and the European Union (EU), are characterized by mature food demand and slow import growth. On the other hand, food consumption in developing country markets is growing much faster, as their demand for food is more sensitive to changes in incomes, and their incomes are growing faster than those in developed countries. Rising incomes not only mean increased overall food consumption, but a greater emphasis on quality and variety. These trends open up new opportunities for a wide range of U.S. bulk and high-value agricultural exports, particularly for meat and dairy products (which boosts the demand for feed grains and proteins), fresh horticultural products, and a variety of processed foods and beverages.

The greatest potential for future expansion of agricultural exports lies with the burgeoning middle classes in these developing countries. The economic viability of American agriculture will depend upon our ability to develop and enhance market opportunities there.

Nowhere is this more important than in our own hemisphere. In fiscal 2002, the Western Hemisphere replaced Asia as the top destination for U.S. food and agricultural exports. Countries in this hemisphere bought over $20 billion—or nearly 38 percent of our exports. Not only are these countries major customers, but they are competitors as well. Canada. Argentina, and Brazil are key agricultural exporters. We have heard a lot recently about Argentina and Brazil, in particular, and how they are not only competitive, but also poised to increase their production capacity tremendously over the next few years. While some may see only the negative in that, it is important to remember that these countries also share our strong commitment to trade liberalization and are allies in our efforts to negotiate a fairer and more market-oriented trading system.

To pursue further trade reform, the Administration has an ambitious trade agenda, with multilateral, regional, and bilateral priorities. In this hemisphere, we want to build on the success of the North American Free Trade Agreement (NAFTA), an agreement that has had a huge impact on agricultural trade.

THE SUCCESS OF NAFTA

In fiscal 2002, our two NAFTA partners, Canada and Mexico, together purchased $15.7 billion worth of U.S. food and agricultural products, exceeding our sales to Japan and the EU combined. As recently as 1995, exports to Japan and the EU were twice as large as exports to our NAFTA partners. Fiscal 2001 marked the first time that our exports to Canada and Mexico exceeded our exports to Japan and the EU, and we expect this trend to continue. The latest Forecast for fiscal 2003 estimates U.S. exports to Canada and Mexico to total a record $17 billion.

Last year, Canada moved past Japan as our number one export destination, with Mexico our third-largest market. And the future is bright. Both Canada and Mexico are stable markets, capable of purchasing many of the high-value products where we see much of our export growth.

Our trade relationship with our NAFTA partners is working. Since NAFTA's implementation, two-way agricultural trade between Mexico and the United States and between Canada and the United States has nearly doubled. And consumers in all three countries are benefiting by more choices and lower prices at the supermarket.

That is not to say that we do not have a considerable list of agricultural trade problems of concern to all three countries. Any time you have trade relationships of this magnitude, problems are bound to come up. But NAFTA does provide prescribed mechanisms to address those problems, and all three countries are committed to working through our differences.

We must continue to work together to achieve a North American model for agricultural trade that will serve as an example to the world. By collaborating in a way that provides the stability and transparency necessary for our private sectors, the North American food chain will become more and more integrated. If we succeed, we can develop the most productive and successful food chain in the world—benefiting producers and consumers alike.

THE U.S. TRADE AGENDA

When NAFTA was implemented in 1994, it was one of the first free trade agreements (FTAs) in the hemisphere. Since then, the United States has lagged behind our neighbors in negotiating agreements. Today, about 20 preferential trade agreements are in effect in the Western Hemisphere. In addition, there are nearly 40 agreements that provide preferences for specific sectors, and more trade agreements are under negotiation or consideration.

The United States is an outsider to most regional trade agreements in the hemisphere. For example, the MERCOSUR customs union—Argentina, Brazil. Paraguay, and Uruguay has liberalized trade among the four nations, putting U.S. products at a competitive disadvantage. Chile already has signed 16 FTAs, including agreements with Canada, the EU. and Central America. We must pursue such agreements if we are to provide the best opportunities for our food and agriculture sector in the region.

This is the impetus behind our trade strategy in this hemisphere. We have completed an FTA with Chile, and are working on the Free Trade Area of the Americas (FTAA) and an FTA with five Central American countries.

THE U.S.-CHILE FREE TRADE AGREEMENT

The U.S.-Chile FTA was concluded on Dee. 11, 2002, and is our first agreement with a South American country. This agreement, which Congress will now consider, will provide America's farmers and ranchers, and businesses they support, with improved access to Chile's market of 15 million consumers. This comprehensive agreement calls for duty-free, quota-free access for all products and addresses other trade measures in both countries.

Since Chile is also a major producer of many of the same products that we produce in this country, we made a concerted effort to minimize market disruptions over the transition period by addressing concerns about sensitive products. At the urging of industry groups, we negotiated an agricultural safeguard provision for imports of certain Chilean products that is price-based and automatic. We are using a variety of tariff reduction formulas to ensure that trade disruptions are minimized. We have listened to our food and agricultural industries to secure the best agreement possible.

FREE TRADE AREA OF THE AMERICAS

With the FTAA, the United States and 33 hemispheric partners will create the world's largest and wealthiest free trade area with a population of 800 million and an annual gross domestic product of $13 trillion.

At the FTAA Ministerial in Quito, Ecuador, last December, the United States pushed negotiations forward to complete the FTAA by January 2005. The ministers energized the market access negotiations and agreed that the United States and Brazil will co-chair the FTAA process through its conclusion. All participants exchanged the first market access and tariff offers in February. The next ministerial meeting will be in Miami later this year, with another ministerial meeting set for Brazil in 2004.

CENTRAL AMERICA FREE TRADE AGREEMENT

In January, the United States launched negotiations toward an FTA with five Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. With a population of 35 million people, these countries imported $1.2 billion in U.S. agricultural products last year—a new record. The negotiations are focusing on three key areas: market access, sanitary and phytosanitary issues, and trade capacity building. These negotiations are expected to be completed this year.

An agreement with these countries would put our food and agricultural industries on a more competitive footing. For example, U.S. fruit producers, who consider Central America a growth market, face current tariff rates of 14 to 28 percent. At the same time, Chile, a major producer and exporter of fruit, already has duty-free access to many of these countries. Not only do our fruit exporters have to contend with Chile's shipping advantage, they also are up against a significant tariff, a one-two punch that is hard to overcome.

CONCLUSION

Mr. Chairman, that is a quick summary of our negotiating efforts in this hemisphere. In addition to these agreements, we also have developed several Consultative Committees on Agriculture—most recently with Uruguay and Colombia. These Committees provide a conduit to address bilateral trade issues as they arise, share ideas, and better coordinate policies to benefit our food and agriculture sectors.

In addition, we are working closely with our fellow members of the Inter-American Institute for Cooperation on Agriculture (IICA) to improve regional cooperation on issues such as food safety, sanitary and phytosanitary issues, and biotechnology.

We continue to seek input from our constituents to be sure that we respond to their concerns as negotiations proceed. Our agricultural trade advisory committees are consulted on a regular basis to bring them up-to-date on policy issues and the negotiations, and to seek their guidance on the next steps. Just last week, we concluded meetings with all six of the commodity advisory committees, as well as the Agricultural Policy Advisory Committee, to receive their recommendations on our policy efforts.

We understand there can be legitimate concerns about the effects that increased imports have on prices and incomes. That's why our top program priority in the trade area is developing and implementing the Trade Adjustment Assistance Program for Farmers, a new program established by the Trade Act of 2002. Under the program, USDA is authorized to make payments to eligible producers when the national average price of an agricultural commodity for the most recent marketing year is less than 80 percent of the national average price for the previous five marketing years, and the Secretary determines that imports have contributed importantly to the decline in price. On April 23, we invited public comments on proposed regulations for the program. Comments are due by May 23.

Mr. Chairman, I know there are some who question the value of negotiating trade agreements. "The market is too small," or, "That is our biggest competitor" are two frequently heard arguments. But it is important to remind ourselves that the United States has one of the lowest food and agricultural tariffs, in the world—12 percent. Most U.S. tariffs on agricultural imports from the hemisphere are already very low or zero, with over 80 percent of U.S. imports from the region already qualifying for duty-free treatment, in many cases due to U.S. programs such as the Andean Trade Promotion and Drug Eradication Act and the Caribbean Basin Initiative. On the other hand, Central American countries have tariffs averaging over 50 percent, and South American countries have tariffs averaging 40 percent. It is hard to argue that maintaining the status quo, and not negotiating tariff reductions, is in the best interest of our food and agricultural sector. I believe we must continue to pursue these agreements to maintain existing export markets and create new opportunities.

That concludes my statement, Mr. Chairman. I would be happy to address any questions that you may have.

Senator COLEMAN. Ambassador Johnson.

STATEMENT OF HON. ALLEN F. JOHNSON, CHIEF AGRICULTURE NEGOTIATOR, OFFICE OF UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador JOHNSON. Thank you, Mr. Chairman. I will try not to be redundant with what my colleague has said, and I certainly could not do it any better than he has. Instead, I will focus purely on what we are trying to do with our partners in the hemisphere and in trade in the hemisphere.

First of all, let me just put, from my point of view at least, how we need to think about the relationship with our colleagues in the Western Hemisphere. First of all, we need to look at trade in this hemisphere as not being a zero sum game.

We believe that we can create economic synergies that provide growth for all sides through enhancing this trade relationship. Second, we need to recognize that we can create partnerships within this hemisphere that allows us to compete together to service the market outside the hemisphere and the rest of the world. And third, this partnership allows us to meet the rest of the world challenges and not just in trade, but also in disputes and in negotiations; for example, in the WTO, or with the EU, or with other countries where we have common interests in trying to resolve trade problems.

What this administration has tried to do is put forward an aggressive package for—strategy for embarking on a competition for liberalization; globally, regionally, and bilaterally. The reason that is important is simply because we need to send a message around the world that if others are not ready to move forward in liberalization, we will move forward without them, somewhere else. That is not something that countries like to do when you consider that the United States is somewhere between 25 and 30 percent of the global GDP.

As always, agriculture always tends to be the most difficult issue to negotiate and one of the hardest issues to implement and enforce. However, we are fortunate in this administration that it is one of the President's top trade priorities.

Let me start with the WTO. We are working very closely with our colleagues in this hemisphere in trying to create a successful round of negotiations in the WTO. And this is important to all of us because, simply put, the WTO is the only place where all of the trade distorting practices of the world are at the table at one time, and all of our potential customers are at the table at one time. And all of us look forward to a world where these distortions are reduced and then eliminated.

We were successful in working together, particularly through U.S. leadership, in launching a round in Doha in November of 2001. This round launched into a direction that asked for substantial reductions in domestic—trade distorting domestic support, substantial improvements in market access, and phasing out export subsidies. The United States followed the leadership in Doha with leadership, by being the first country to offer a comprehensive position in the WTO that would call for reduction and harmonization on the way to the elimination of these trade distorting practices.

Specifically, we suggested that we should eliminate export subsidies; we should reduce trade distorting domestic support by $100 billion in 5 years; and that we should reduce tariffs using a formula that effectively would reduce the average tariff in the world by about 75 percent.

The chairman of the negotiations has put forward a proposal himself in trying to work with all the different negotiating countries. While his proposal is better than the Uruguay Round approach, it still needs to go farther, and we have many open questions that need to be answered.

There are three critical points that we will be working with our partners in this hemisphere on. One is: We are all watching to see what the Europeans do in terms of reform of their agricultural policies. If Europe does not, in the next couple of months, take some significant steps toward reforming their policies, it is going to make it very difficult for the Doha Development Agenda to be successful.

Second, we will be working to define and answer some of the open questions that remain in the chairman's draft. This particularly deals with market access and some of the special and differential treatment issues.

Third, we will be working together to make sure that the next ministerial, which is in this hemisphere in Cancun in September, is successful in moving us toward achieving the date of finishing these negotiations by January 1, 2005. Second, regionally, as part of our competition for liberalization, we are negotiating a Free Trade Area of the Americas with the 34 democracies in this hemisphere.

Keep in mind that there are $13 trillion in gross domestic product in these countries, over 800 million people that is projected to grow in the coming decades to over 1.2 billion people. And our farmers, our ranchers, our workers, and our businesspeople are facing fairly high tariffs in some of these countries, and we want to see those reduced and eliminated.

Similar to the WTO, we have agreed that we should finish these negotiations by 2005. That is why I also say these are not just competition—not just a competition for liberalization, but that these negotiations actually are complementary to each other. We are co-chairing these negotiations with Brazil, but we look forward to working with them as we move toward a ministerial in Miami in November in making that successful meeting our time line.

In February, the countries tabled offers. In June or by June we are expecting that all the countries will have put forward what their requests are from other countries, and then you have what people want and what people are willing to offer, and that is when the real negotiations get started after July.

There are several areas that we are going to be focusing on: Eliminating export subsidies, disciplines on state trading enterprises and differential export taxes, eliminating price bands and discretionary licensing.

And I should just point out one concern or focus has been whether or not the United States will negotiate domestic support in a regional or bilateral agreement. We have been very clear that we will not for the exact reason that I started with. The other subsidizers in the world are the Europeans, the Japanese, and some others, and they are not at the table in the FTAA or these bilateral negotiations.

I should also point out that in all these negotiations when it comes to sensitive products, we will be looking to provide the tools and the longest staging period possible in order to allow for adjustment, and on our offensive agenda we will be moving those items as quickly as possible.

As it relates to the bilateral agreements, we are negotiating an agreement with the Central American countries—the five Central American countries. In 2002 our trade with them—exports, were about $1.2 billion. That is more exports than what we have sent to any European country or South Asian country; in fact, more than we send to Russia and France combined. Currently, we enjoy about a 37 percent market share in Central America. That is more than Mexico, the EU, and South America combined in that market.

Like the FTAA, we are going to be cutting from applied rates, which is important because for many developing countries the bound rates are much higher than the applied rates, so cuts are real. While we are a relatively open economy for the Centrals, we have many barriers there we would like to see brought down so that our farmers can benefit. We are scheduled to finish this by the end of this year. Just last week, we shared in-depth tariff offers, and we identified non-tariff barriers that we want to see removed.

Finally, on Chile, which is an agreement that we negotiated in December, we think it is a good agreement for U.S. agriculture. About 80 percent of our exports will be at zero tariffs within 4 years. Phasing is as good or better than what Canada or the EU had gotten with Chile, and all tariffs will be eliminated in 12 years. We also got a good agreement on a related to export subsidies, on the elimination of price bands, which Chile had not agreed to do in any of its other bilateral agreements. We have created a mechanism for an agricultural safeguard for our sensitive products to use.

And, parallel to this, we had very constructive discussions on SPS issues, some of which have been outstanding for many, many years. In particular, we found success with the dairy inspection system, the meat inspection system, and getting recognition of U.S. beef grading standards.

In closing, I know that there are several issues as it relates to enforcement and implementation that you would like to see covered. I will not go into that now, because I suspect we will get into that in some of your questions, except to say that we are working very hard with the industries in the United States that are affected, within the administration and with the Department of Agriculture, and with Members of Congress, such as yourselves, in trying to send the message clearly to these countries that we expect for these agreements to be lived up to, that each agreement has its rights and obligations. You cannot enjoy the rights without meeting the obligations, and if you meet the obligations, you have the right to enjoy all the rights.

We are looking forward to working, continuing to work with you and the countries in resolving the outstanding issues, and we can talk about them more specifically in your questions.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Johnson follows:]

PREPARED STATEMENT OF AMBASSADOR ALLEN F. JOHNSON, CHIEF AGRICULTURE NEGOTIATOR, OFFICE OF UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, DC

INTRODUCTION

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today on the issue of agricultural trade in the Western Hemisphere. Before I get into the specifics on the Hemisphere, I thought it might be helpful first, to give you a sense of how trade benefits U.S. agriculture and the broader economy. Second, I will describe the Administration's overall approach on trade. Third, I will provide some detail on developments in the WTO agriculture negotiations and the trade talks we are pursuing in the Western Hemisphere, noting the opportunities and challenges for American agriculture. Finally, I will touch on our efforts to ensure that our hemispheric trading partners fully implement their obligations under existing agreements—the North American Free Trade Agreement (NAFTA) and the WTO Agreements, in particular.

BENEFITS OF TRADE FOR AGRICULTURE AND THE BROADER ECONOMY

Trade is important to American farmers, ranchers, and food processors. They must look overseas to generate sales and income growth, since U.S. population growth and consumption are relatively flat, and U.S. productivity continues to follow a significant upward trend.

Foreign markets already are critical customers for U.S. agricultural producers and food processors. Overall, one in three U.S. farm acres is planted for export. Twenty-five percent of all cash receipts for agriculture come from export markets. Nearly half of our wheat and rice crops are exported; about one-third of soybean production is shipped overseas; and we export 20 percent of our corn crop. Dollar for dollar, we export more wheat than coal, more fruits and vegetables than household appliances, more meat than motorcycles, and more corn than cosmetics.

Foreign markets will be even more important in the future if we are to sustain a vibrant agricultural sector. Ninety-six percent of the world's consumers live outside the United States. Population, income, and consumption growth is higher in overseas developing markets, than in the United States. Consumers overseas are turning to the higher value products the U.S. produces competitively.

Farm exports generate American jobs and additional economic activity that ripples through the domestic economy. According to USDA's Economic Research Service, every dollar of export creates another $1.47 in supporting activities to process, package, ship, and finance agricultural products. This means that agricultural exports—over $53 billion in 2002—will generate an additional $78 billion in supporting business activities. Moreover, agricultural exports currently provide employment to nearly 800,000 Americans, on and off the farm. Finally, liberalized agricultural trade means lower food prices and more choices for all Americans.

ADMINISTRATION'S STRATEGIC PLAN ON TRADE

In the past year, the Bush Administration has restored America's leadership on trade. We now are moving forward aggressively to secure the benefits of open markets for American families, farmers, ranchers, manufacturers, workers, consumers, and businesses.

With the Trade Act of 2002 in place, and trade negotiating authority re-authorized, the Administration is pressing ahead with trade liberalization globally, regionally, and bilaterally. We are building on the success of the NAFTA and the Uruguay Round Agreements. Together, these pacts provide the average American family of four with benefits of between $1,300 and $2,000 each year, and NAFTA alone provides annual benefits of $350 to $930 to each family.

Our strategy is to incite competitive liberalization by negotiating regional and bilateral trade agreements to complement our global strategy in the WTO. If others are ready to open their markets, America will be their partner. If some are not ready, or want to complain but not lower their own barriers, the United States will proceed with countries that are ready. This competition in liberalization strengthens the United States' already considerable leverage, including in the WTO.

The President has identified agriculture as the cornerstone of our international trade negotiations. We have made important progress in the last two years, but the "heavy lifting" is still before us.

OVERVIEW OF TRADE INITIATIVES

On the global front, we worked closely with our partners in the Western Hemisphere to launch new WTO negotiations in Doha. Our basic goals are in alignment: negotiate freer markets for agriculture, manufactured goods, and services. Indeed, our partners in the Hemisphere know that without U.S. efforts to support a strong agricultural mandate, Doha would not have been successful. We now are in the lead-up to the September WTO Trade Ministerial in Cancun and pressing others on our comprehensive and ambitious agriculture proposals.

This year, we also will work with Congress on legislation implementing our Free Trade Agreements (FTAs) with Chile and Singapore. In addition, we are advancing negotiations with 33 other countries on the Free Trade Area of the Americas (FTAA), and have initiated FTA negotiations with the five countries of the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). Outside the Western Hemisphere, we are negotiating FTAs with Australia, Morocco, and the countries of the Southern African Customs Union. In October, the President announced an important new trade initiative with the Association of Southeast Asian Nations (ASEAN) providing a road map for ASEAN countries to move toward an FTA with the United States. Most recently, the President announced we will establish a U.S.-Middle East Free Trade Area within a decade by building on our FTAs with Jordan and Israel.

While pressing for more ambitious disciplines in the WTO and negotiating new FTAs, we also are working to ensure that our trading partners implement their existing trade agreement obligations.

AGRICULTURE IN THE WTO

Progress in the WTO is fundamental to our trade agenda, particularly because of the importance of multilateral reform to agriculture. The WTO provides the opportunity to address each of the three problem areas in agricultural trade: market access, export subsidies, and trade-distorting domestic support. This was reflected in the core elements of the mandate established for the Doha negotiations in November 2001: ". . . we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reduction in trade-distorting domestic support."

We have taken an aggressive approach to implementing these goals, leading the way by submitting the first comprehensive proposal and setting an ambitious marker for the level of reform we aim to achieve. Our proposal calls for substantial reductions with a harmonizing result (narrowing the disparities between countries' trade barriers) on the way to elimination.

The key elements in the U.S. proposal are as follows:

Market Access: substantial reductions in tariffs in all WTO countries, bringing down the global average tariff by 75 percent over five years, using a formula that provides for deeper cuts in higher tariffs.

Export Competition: elimination of export subsidies and an end to single desk exporter privileges in five years; disciplines on export credit and food aid programs to guard against market disruption while keeping our programs viable.

Domestic Support: substantial reductions in all trade-distorting support in a way that harmonizes levels across countries, pointing toward the eventual elimination of this type of support. This proposal would cut over $100 billion in allowed trade-distorting support globally, with most of the reform coming from the European Union (EU).

We have had mixed reactions to our proposal. The EU and Japan have not been leading in reform, while we have had a good working relationship with the Cairns Group members and many developing countries, including those in Latin America. Recognizing that differences exist between reformers and conservatives, earlier this year, the chair of the WTO agriculture negotiations issued a draft of formulas and rules to implement the Doha objectives. While going further toward reform than the Uruguay Round, the chair's draft was not as ambitious as the U.S. proposal. Influencing future drafts to establish more ambitious disciplines will be our focus as we move forward in discussions.

The key to progress lies in what Europe does on Common Agricultural Policy (CAP) reform and how special and differential treatment is handled. We need to work with you and with American agriculture to do all we can to maximize the benefits of an agreement and then make a clear-eyed assessment of what is best for the United States.

REGIONAL AND BILATERAL FTAS IN THE WESTERN HEMISPHERE—OPPORTUNITIES AND CHALLENGES

The markets of the Western Hemisphere are important ones for our agricultural exports. Many of the region's leaders have identified trade as a critical element in promoting economic growth and development in their economies. That said, U.S. farmers, ranchers, businesses, and workers still face many market access barriers in the Hemisphere, such as tariffs that are often five times higher than U.S. tariffs.

The U.S.-Chile FTA negotiations provided, and the FTAA and the Central American FTA (CAFTA) talks offer, an opportunity to tackle the high tariff and non-tariff barriers in the region "head on." More than three-quarters of U.S. farm goods will enter Chile tariff-free within four years, with all tariffs phased out within 12 years. The FTAA will increase our farmers' and food processors' access to markets in the Western Hemisphere by creating the largest free market in world—with a combined gross domestic product of over $13 trillion and 800 million people.

Under our statutory preference programs, the United States is largely open to Central American exports, although there are some exceptions for sensitive agricultural products. The CAFTA negotiations therefore should create new market opportunities for our agricultural exports with relatively few adjustments to our tariffs. This is true of market access negotiations with some of the sub-groups in the FTAA, as well, for example, the Andean and Caribbean countries.

Our bilateral and regional FTAs in the hemisphere—the U.S.-Chile FTA, the CAFTA, and the FTAA—also complement our trade objectives in the WTO. They set high standards for trade agreements and spur competitive liberalization. They provide a counterweight to the FTAs our Western Hemisphere partners have signed with other countries, including Canada, Chile, and the EU. Finally, U.S. trade pacts in the Western Hemisphere deepen our ties with individual and small groups of trading partners—alliances that could help us in the WTO.

Our efforts to eliminate export subsidies in the Western Hemisphere bolster our work in the WTO on these most trade-distorting of agricultural payments. In the FTAA and the CAFTA, we are pressing for provisions like those in the U.S.-Chile FTA providing that the Parties to these FTAs will not only work together in the WTO to eliminate export subsidies globally, but also will establish disciplines to address subsidies on imports from non-FTA countries.

In the FTAA and CAFTA tariff negotiations, we will see immediate benefits from the tariff cuts negotiated, since cuts will be largely from currently applied, rather than WTO bound rates. Developing countries usually have ceiling bindings that far exceed their applied rates.

Our approach in the FTAA and CAFTA negotiations is to maximize the benefit for our agricultural exports while taking into account our import sensitivities. The U.S. market access offers in these talks are comprehensive—all agricultural and industrial tariffs are subject to negotiation. The goal is free trade, but the tariff offers are organized into buckets assigned phase-out periods from immediate to more than ten years. The longer categories provide us the flexibility to deal with tariffs on our most sensitive products, such as orange juice, sugar, sugar-containing products, and peanuts. For our agricultural exports, such as beef, poultry, and grains, our objective will be to see early tariff phase-outs.

Among the challenges we face in the FTAA and CAFTA talks are less than forward-leaning offers—with product exclusions and too many items in the longest tariff phase-out buckets. Also, several countries are conditioning their tariff cuts on the negotiation of disciplines on domestic supports and export credits/food aid in the FTAA and CAFTA. Our unequivocal position is that any disciplines related to domestic support and export credits/food aid should be negotiated in the WTO.

NEXT STEPS IN THE WTO, FTAA, AND CAFTA NEGOTIATIONS

WTO

Of course, the world will be watching what Europe does on CAP reform in June. A small group of WTO members are scheduled to gather in Egypt in June. Ministers from all members are slated to be in Cancun in September. These meetings will be important to achieve progress in agriculture, and other areas, and will set the tone for making progress toward our January 2005 deadline.

FTAA

At the 1994 Summit of the Americas, FTAA Leaders agreed to complete negotiations on the Agreement by 2005. The FTAA negotiating groups, including that on agriculture, now are preparing for the Ministerial the United States will host in Miami in November.

By June, all countries are to identify their requests for improvements in initial market access offers that countries tabled in February. In July, FTAA countries will begin exchanging revised offers.

We have agreed to the elimination of export subsidies affecting trade in the Hemisphere. Delegations now are discussing how to deal with subsidized imports from non-FTAA countries.

We will continue pressing for the reform of state trading monopolies and the elimination of differential export taxes—higher export taxes on commodities than on processed products (to support domestic processors). Barriers such as price bands and discretionary licensing also are on the table.

The United States and Brazil have assumed the co-chairmanship of the FTAA negotiations. We are coordinating closely with the Brazilians to determine a way forward in the run-up to 2005. Given Brazil's stature in the region, and its efforts toward closer integration with the global economy, cooperation between Brazil and the United States in the FTAA and on trade is crucial.

CAFTA

This negotiation is slated to finish by the end of the year. This is an ambitious time frame, given the complexities of the negotiation and the sensitivities, especially for the CAFTA countries.

Just last week, we had our first in-depth discussion of tariff offers. We have agreed that no product is to be excluded from the negotiations, but specific reform commitments still need to be negotiated.

We also have identified a number of non-tariff measures that we would like to see removed, including discretionary licensing, domestic purchasing requirements, and price bands. In addition, we have begun a process to rationalize sanitary and phytosanitary barriers.

Overall

USTR and USDA will continue to closely consult with Members of Congress, congressional staff, farm groups, and other U.S. agriculture interests in developing our negotiating positions.

IMPLEMENTATION OF EXISTING COMMITMENTS

In addition to the new initiatives described above, we continue to press our Western Hemisphere partners for full implementation of their existing commitments on agricultural trade, including in the WTO and the NAFTA. Canada and Mexico, two of our three largest agricultural export markets, have presented some particular challenges on implementation. We also have implementation issues with Brazil.

On some of these implementation matters, we have made significant progress. On others, there is more to be done.

Canada

In December 2002, the United States won a WTO dispute settlement case in which a panel ruled that Canada was continuing to provide illegal subsidies to its dairy industry under its Commercial Export Milk (CEM) program. On May 9, we announced an important settlement of this case, which resulted in major revisions to Canada's subsidy programs for its dairy exports. Canada has eliminated the CEM program, and consequently, will no longer export subsidized dairy products to the United States and will significantly limit subsidized dairy exports to third countries.

To advance the interests of our wheat farmers, we are challenging the sales practices of the monopoly Canadian Wheat Board in the WTO. A dispute settlement panel has been formed, and we expect a decision later this year.

Mexico

Two-way trade for agricultural products between the United States and Mexico has increased from $6.4 billion in 1992 to almost $15 billion in 2002, a jump of nearly 120 percent. Mexico is the third largest market for U.S. agricultural exports. The United States is Mexico's single largest market receiving 78 percent of Mexican agricultural exports. Over the past couple of years, however, the Mexican government has taken a number of actions affecting a broad range of U.S. agricultural commodities—including pork and live swine, beef, rice, apples, dry beans, and sweeteners. We have tried to work constructively with our Mexican colleagues to resolve our concerns, but we have made it clear that our concerns must be addressed.

Undersecretary of Agriculture Dr. J.B. Penn and I went to Mexico in April to communicate a clear message that it needs to abide by its international commitments to the benefit of not only our bilateral trade relationship, but also for the economic well-being of Mexico's farmers and consumers. If we do not see an improvement in our agricultural trade relationship, we are prepared to take the necessary actions to protect our agricultural interests.

Brazil

Later this month, Ambassador Zoellick will be traveling to Brazil. During his visit, he will discuss the Brazilian government's's recent decisions to ban new plantings of agricultural biotechnology products and to order the compulsory labeling of agricultural biotechnology foods. These decisions appear to be the result of mounting pressure from anti-biotech interests within the country, but the government has not produced any scientific evidence to justify its actions. In addition, we know that Brazil harvested Round-up Ready soybeans this year and agreed to certify to the Chinese government that these products are safe. Ambassador Zoellick will ask the Brazilian government for its scientific justification and risk assessments behind its recent actions, the reasons for the sudden reversal in policy, and how Brazil can justify its actions in light of its WTO obligations.

CONCLUSION

The Administration's trade initiatives in the Western Hemisphere—regional and bilateral—are pivotal elements in the President's strategic plan on trade. Agriculture is central to this plan. Our goal in the FTAA and CAFTA negotiations is to maximize the benefits of free access to Western Hemisphere markets for U.S. producers and processors. We have made solid progress in these negotiations, and are working closely with our hemispheric partners to achieve success in the WTO. We face significant challenges in bringing these negotiations to a successful conclusion, and look forward to working with you and other Members of Congress, and with American farm interests, toward this end. At the same time, we remain focused on resolving problems our farmers, ranchers, and processors encounter when our trading partners do not follow through on their existing commitments.

Again, thank you for the opportunity to testify.

Senator COLEMAN. Thank you very, very much, Ambassador Johnson and Dr. Penn. Before I go to the questioning, just a comment first, sort of reiterating a little bit what I said in my opening statement. I come here, you know, to this position as U.S. Senator with the belief, a shared belief with the vision of what both you gentlemen are talking about, that there is great opportunity for our country. The future is going to depend upon us expanding markets. Either that or we are going to have to eat a lot more per person, and that is not going to happen.

And I want to applaud you. I want to applaud you, Ambassador Johnson, for the work that has been done with Chile. The ambitious schedule, ambitious schedule, with FTAA; the ambitious schedule with CAFTA. I had the great opportunity to meet with the five Presidents of the Central American countries. They are hungry for progress. In many ways, I think our opportunities at developing and growing democratic institutions is going to depend on this success.

So I start with that, and I am bolstered, Dr. Penn, when, you know, I hear you say that we are going to closely monitor and intend to ensure that agreements are enforced. I also understand, by the way, that we have obligations on competitiveness, and I think I will address those later with some of the other witnesses; things such as, improvement of locks and dams, and infrastructure investment that we have to make, technology investment, R&D development investment.

I say that, then, with that being where I come from but, again, reiterating that if we do not address these areas of concern that I hear very loudly coming back to Minnesota, and I would guess that my colleague from Wyoming would be hearing the same thing, if we do not address those, my fear is that one of the great, kind of, basis to support a free trade of the Ag communities is going to move in another direction. And if that is the case, it is going to be very difficult to move forward with the ambitious agenda on CAFTA and on FTAA.

So I am going to ask some questions about some specific concerns. Again, understand the light in which that they are being laid out, and understand that we have to respond to these.

Dr. PENN. Yes.

Senator COLEMAN. We have to respond to these.

Let me start by focusing on the Mexican situation, one of which I hear a lot about. And due to the actions of the Mexican Government, I will tell you my colleagues, like the chairman of the Finance Committee, Senator Grassley, and others talked about in terms of illegal, using that phrase, illegal actions against a number of U.S. commodities, I understand $3 billion in U.S. farm exports are in jeopardy. Of commodities impacted including apples, beef, corn, dry edible beans, high fructose corn syrup, pork, and rice, six out of seven are produced in my state. And I am deeply concerned about the injury to U.S. agriculture and the damage it is inflicting on support at home for trade. Can you help me, tell me how and when do we intend to respond to this serious situation?

Ambassador Johnson.

Ambassador JOHNSON. Well, first of all, let me just start by saying on all those products I am doing everything I can to consume as many of them as I can personally, but I do not suspect that will be enough to make up for the shortfall.

I have to say that when it comes to Mexico—and I know that Dr. Penn shares this view because we just were down in Mexico just a few weeks ago. There has been a great deal of frustration in the agriculture community which, I think, is largely shared by us as ones who have been on the front lines of trying to make sure that we enjoy the rights that we have under the NAFTA and that both sides complete the obligations that we have under the NAFTA.

Our message, I think, in Mexico is loud and clear. Dr. Penn made it clear, which he can comment on in a moment, as to his views on it. I made it clear during my presentation that I felt that that meeting was a turning point one way or the other. Either we are going to start seeing these difficult issues resolved, in which case it could be an example of how partners work together to fulfill the promise of these sorts of agreements and the economic opportunities; or else it could be a turning point for the worse, in which case, we are going to defend our economic interests and our agricultural community in pursuing whatever the options are that we need to, to make sure that the agreement is enforced.

We laid out, in very specific direction, how we were going to work through each one of the issues that you mentioned and, frankly, and there is more. They are not—you can feel better that they are not just all in your state. They are hurting commodities in other states as well.

Senator COLEMAN. I have some more to ask you about.

Ambassador JOHNSON. OK. But we laid out some specific steps. We are starting to see some of those issues move toward positive resolution, but we are going to be watching very closely. I am not going to—one thing that we try to do is not over-promise and under-deliver but under-promise and over-deliver. And in this particular case, I think we need to look at it with a great deal of caution while we are preparing ourselves to take whatever actions are necessary to make sure it is enforced.

Senator COLEMAN. Dr. Penn, before you start, let me ask a followup, and I think you can both respond because they are tied together. But before that, I do want to make note that I have a copy of a letter which will be entered into the record, and it was sent to the President from the National Corn Growers Association, Corn Refiners, National Pork Producers Council, U.S.A. Rice Federation, Northwest Fruit Exporters, National Cattlemen's Beef Association, National Dry Bean Council, all of which have always been strong backers of trade, saying they have reached the breaking point because of the Mexico situation.

[The letter referred to follows:]

The Honorable GEORGE W. BUSH
President of the United States of America
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

DEAR MR. PRESIDENT:

It is with profound regret and concern that we are writing to you. The NAFTA, our most important free trade agreement, is being unilaterally re-negotiated by Mexico. Our industries and growers are concerned by Mexico's actions.

Just as the NAFTA envisioned for industries on both sides of the border, Mexico became our number one or two export market and a critical component of our sales. Our industries now depend upon the NAFTA to protect major elements of our sales opportunities. As a result, we believe the Mexico situation is the single most important trade and market access issue for the export-oriented agriculture community.

We firmly believe that the U.S. must be prepared to make it crystal clear that Mexico will pay a cost for these continued unilateral efforts to renegotiate the NAFTA. Otherwise it signals that trade agreements are of virtually no value, and as historically very pro-trade industries, this is not something we assert lightly.

Mr. President, time is of the essence. The most important step you can take to shore up support in pro-trade agriculture for new trade initiatives is to demonstrate your eagerness to ensure that the NAFTA markets are open. We call upon you to do everything within your power to rectify this situation.

Sincerely,

National Corn Growers Association
Corn Refiners Association
National Pork Producers Council
USA Rice Federation
Northwest Fruit Exporters
National Cattlemen's Beef Association
National Dry Bean Council

Senator COLEMAN. And, again, my conclusion and the fear that I draw from this is unless we address this situation quickly, plans for trade negotiations underway could be derailed. And I think that would be a terrible thing if we were not able to address this and were not able to move forward.

Ambassador Johnson, just as specifically—I want to go to a specific case and you could comment. I understand that Mexico will soon issue a preliminary determination in its dumping case against U.S. pork that could sharply curtail and perhaps even completely halt U.S. pork exports to Mexico. What actions can you take to combat a situation like this? What assurances can you give us today that the administration will use all available tools under NAFTA, the WTO, or other leverage outside these agreements that might yield a more timely resolution to ensure that Mexico abides by its NAFTA obligations and that U.S. pork exports will continue to flow without interruption to Mexico?

Ambassador JOHNSON. I will answer that, but let me first comment on your first observation, which is, we made it clear to Mexico that it is unfortunate. Some of the actions that have been taken have been against some of their strongest supporters, some of the strongest supporters of NAFTA, and some of the strongest supporters, frankly, of our trade agenda.

And as you know and have pointed out, Senator, in your introductory statement, the agriculture community is critical to the forward movement of our trade agenda, not just in agriculture but more broadly, to keep the alliance, the coalition together that allows for the aggressive agenda that I outlined earlier.

As it relates specifically to pork, the determination on the dumping case that there—is scheduled to be decided, or has to be decided by, I think, it is July 16. So we are monitoring that very closely. We have made it very clear since the beginning, going back to January, with direct connection, conversations, as well as letters with the appropriate Mexican leaders, that we did not see justification for this case. We did not see a reason why it should move forward, let alone be concluded in any positive way, and we made it clear that if it was, we would take the appropriate action, and we will.

Senator COLEMAN. Dr. Penn, do you want to add anything to that?

Dr. PENN. No, I cannot add much, except to say that we view this as a very serious situation and, as Ambassador Johnson said, we have made the point very clear to the Mexicans that this dispute over various food and agricultural trade matters threatens to spill over and to seriously affect our entire bilateral relationship.

And everybody in the administration, at all levels, has been involved in conveying this same message to the Mexican Government; Secretary Powell to Secretary Derbez and on and on. Secretary Veneman has frequent contact with Secretary Usabiaga and has made this message very clear to him. So as Ambassador Johnson said, we think the message has been delivered. We have to wait now and see what the response is going to be.

Senator COLEMAN. I am trying to get a sense of beyond the conveying. Are there tools at our disposal that will provide for, if not more expeditious, a more certain resolution of this? At times, I think, we have to go beyond the conveying.

Let me ask one last question and then I will turn it over to my colleague, Senator Enzi. And just, again, trying to focus on, perhaps, another specific tool: The United States took Mexico to WTO for consultations in September 2000 on the live hog case. At that time Mexico indicated that it would quickly conduct a chain circumstance review of the dumping order on live hogs. I understand that Mexico finished its review over one year ago but refuses to release its findings. Is it not time that we requested a dispute settlement panel, the WTO, in order to get rid of this illegal dumping order?

Ambassador JOHNSON. First of all, let me just quickly comment on the tools question. Depending on—in the list of issues that you mentioned, we have different tools available depending what they are doing and where it is in the process. That could go anywhere from retaliation to requesting a WTO consultation, a NAFTA case, or in this case, since we have already done the consultations, we can go straight to a panel. And we have made it clear that we expect that this thing should be resolved, and I do not mean in weeks, but sooner than that.

And so, if they do not—and we have received encouraging signs that they plan on doing that. Obviously, if they do not do that, then we will look at moving forward with the panel, because that is what we need to do.

Senator COLEMAN. Thank you very much, Ambassador.

Senator Enzi.

Senator ENZI. Thank you, Mr. Chairman.

The comments have been very helpful, and I served on the President's Export Council when President Clinton was in office, and I am now on President Bush's Export Council. I was at that great battle in Seattle where we did not get to do any negotiation. And my observation is that I am really pleased with this administration and the priority that they placed on agriculture. It is very helpful to have that as a priority and have it kind of as the engine pulling the train instead of the caboose with the tradeoffs.

I appreciate the work the administration has done on the nonexistent Mexico side letter that passed NAFTA in the first place. I know that got lost and there has been some good emphasis on that, and I appreciate the way this administration has shut down the sugar laundering that was going on with Canada.

All of us are in favor of free trade, but we want it to be fair trade. And my experience working with different countries is we all want it to be just a little fairer for our own country than it is for anybody else. But through these meetings, I have noticed that most of our major competitor countries exclude sensitive agricultural products from their FTAA's and even when we do get them to include them, there is kind of ample evidence that they do not live up to their obligations. I mentioned Mexico and there are several products there.

Is it likely that we will face the same situation on a greater scale when we get the other 30 countries in the FTAA? Why should we make concessions on our sensitive agricultural products like sugar?

Ambassador JOHNSON. Well, let me start by just saying what I said in my statement, or my oral statement, which is: We all know, and this we just have to take as a given, that agriculture is the most difficult area to negotiate. There is a lot of sensitivities, a lot of domestic pushback, in other countries as well as our own, frankly.

In that, that is also true when it comes to enforcement and implementation. It is a constant maintenance function. Things do not—it is not like when you buy a house and as long as you make your payments you get to live in the house. People are always pushing back and trying to enjoy their rights without fulfilling the obligations. And part of our job is to keep going after those issues and trying to see them resolved.

As we said, as it relates to Mexico, we are hopeful that we can see these issues resolved but, you know, we will believe it when we see it so to speak.

As it relates to exemptions, which is really, when you talk about sugar, it relates to the question of exemptions in this context. Our position has been in these bilateral and regional agreements that there should be no exemptions. And it is one simple reason, which is: If we start exempting products, the other side is going to do the same thing. And right in the front of that line is going to be livestock, is going to be meats, is going to be wheat, is going to be a number of other products that I know are near and dear to you as well as other members of the committee. So, our position has been that there should not be exemptions.

Having said that, we recognize that some products are more sensitive than others, and so we have phasing that allows for these products to be in later time lines, and this is reflected both in what we are doing in the FTAA, what we are doing in the Central American Free Trade Agreement, and what we did in Chile. For example, the last basket in the Chilean Agreement is 12 years for implementation. In addition to that, we have tools such as nonlinear phasing so that it is back loaded, the tariff reductions. We have a special agriculture—we have a special safeguard in the Chilean Agreement that is a price-based safeguard. If we start seeing negative price effects, it allows us to have some form of tariff snapback to avoid a negative impact on our producers during the transition. So those are various tools we try to use to deal with the sensitivities of our import-sensitive products.

While at the same time on the offensive side, by not having exemptions, it allows us to go aggressively after the products that we have a positive offensive interest in whether it is wheat, or meats, or poultry, or what have you.

Senator COLEMAN. You mentioned that we needed to ask you about enforcement and implementation. What are the enforcement techniques that will be built into this process? What sorts of——

Ambassador JOHNSON. Well, in general, if you feel like their obligations are not being lived up to, you request some consultation to try to discuss it, resolve it. We have basically done that, are doing that step to some extent in the meetings that J.B. and I had down in Mexico about two or three weeks ago.

And then if it is not resolved, then you go forward with a dispute settlement case. If you win the case, then they are supposed to fix the problem, if they do not, then you can retaliate against them for the amount to compensate you for your losses.

Obviously, the preferred route—and some of the examples that you just cited are probably good ones. The preferred route is to negotiate and solve the problem, because you may retaliate against them, but that does not necessarily help the industry that is facing the economic consequences of their action.

So the preferred route is to either negotiate it through consultations or, if you win the dispute, have them comply because retaliation makes you both feel the same pain, but the same industries are not the ones that are benefiting.

Senator ENZI. A moment ago you mentioned the next thing they would want to negotiate on would be livestock and, of course, that is a very important area to me, as well. There is a special sensitivity to that in the West.

And when we are considering FTAA, we know that these other members are major beef exporting companies. They are not countries. They are not major importers.

Under the potential conditions of FTAA, what provisions has USTR made with regard to beef that ensures that the sensitivities can be recognized?

Ambassador JOHNSON. Well, really as you look at these agreements in countries in terms of what our offensive and defensive interests are, they sort of change, depending on the countries you are talking about.

There is some offensive interests in Central America, for example, in the meat sector. There is some offensive interest—there was some offensive interest in Chile. That is why we actually proposed to the Chileans that we have an immediate elimination in beef. They did not want to do that. They waited—they wanted to put it at 4 years.

Beef offal actually are immediate, but—and in the FTAA, it is similar. There is differentiation between the Caribbean countries, the Central American countries, the Andean countries versus the Mercosur countries. And depending on the countries, you have a different dynamic in terms of your trade opportunities.

What we did in the FTAA is: What we created in our proposal was different offers depending on which region we were talking about. So there is four different regions that are being addressed. And if you think of it as a matrix—and then within that, it also deals with the issue of time lines; so, in other words, your most sensitive product to your most sensitive countries would be in the longest time line. If that same product had an offensive interest to another country, you would put it in a shorter time line, because you obviously want to have access to that market sooner.

So it changes depending—if you look at it as a matrix of time lines versus countries, they cross, and depending on the products, how it is treated.

Senator ENZI. I will be interested to watch these products as they progress. And my time has run out.

I do have some additional questions I would like to submit to them that——

Senator COLEMAN. Yes, I am going to do a second round of followup actually, Senator, with these witnesses. There are a few more areas that I would like to discuss before we move to the next panel.

Just one more question, if I can, on the Mexico situation, and it has to do with the HFCS, high-fructose corn syrup, which I know there has been, I think, a 7-year dispute with Mexico on sweeteners. I understand the U.S. exports of high-fructose corn syrup have been completely halted due to the imposition in Mexico of a 20 percent tax on all beverage sweetened with HFCS.

For the 17 months, the corn refining industry has been unable to sell any high-fructose corn syrup in what should be its largest export market. And without getting into the value, the dollar value and the impact that it has certainly on folks in my state and for U.S. corn refiners throughout the country. Two questions: What stage have we reached in these negotiations? And what action does the administration plan to take in the coming days and weeks to resolve this impasse?

Ambassador JOHNSON. Well, first of all, as it relates to the history of this problem, it really goes back—the sweetener problems with Mexico go back to the origins of NAFTA and the side letter that was mentioned earlier. Really, we have a version of NAFTA that includes a side letter, which, of course, we believe to be accurate. They have a version of NAFTA that does not include the side letter.

That, in and of itself, has created an environment where we have not seen an integration of the sweetener industries between Mexico and the United States, particularly in sugar, that you would have expected as you moved toward liberalization, which is 2008 when there is complete integration.

Our view has been that—and a byproduct of that, has been the problems with HFCS, because basically HFCS goes to Mexico, which displaces Mexican sugar. Mexican sugar producers believe they should have a right to the U.S. market, which is not consistent with our view of what the NAFTA is based on what the side letter is. So all this, you know, it becomes a pretty complicated process.

But the bottom line is in talking to the industries, both the sugar as well as HFCS industries—and corn producers, I should point out as well—is that we would like to see a negotiated solution to this, because we believe since we have really reached the point where trade has broken down. We do not see HFCS and corn for HFCS going to Mexico. We do not see sugar going to the United States. We are not seeing cross investment. And what investment has taken place in Mexico and HFCS has been hurting over the last 18 months.

There have been several dispute settlement cases on this, not directly the current problem, but previous problems that have inhibited trade.

In talking to the industries, the real conclusion was is that the best way to resolve this is to negotiate a solution. We have been talking to the Mexicans about this now for really about a year. We think that we have some good ideas on the table that could move toward resolution.

Frankly, it is not completely—it has not reached the point that we can either say that we have an agreement or that we can say that Mexico is ready to follow through on that, getting back to my earlier point. I am not going to make promises that I do not know whether I can deliver on or not.

In terms of what we are prepared to do, we are prepared to do what we need to do to defend our interests in this case. Again, the industry's preferred solution is to see it negotiated, but if they are not ready to negotiate, we will look and see what our options are.

And in this case, since we have had previous rulings, not exactly on this current problem, but close to the problem with HFCS of being inhibited in the Mexican market, that probably gives us a few more tools to look at than we would have otherwise. And we are evaluating that now.

Senator COLEMAN. Well, thank you Ambassador. And I certainly appreciate your attention on this issue.

Let me turn to the Brazil situation. I understand, Dr. Penn, that you plan to journey to Brazil in the not too distant future. And I understand that Ambassador Zoellick is traveling to Brazil next week for FTAA discussions. So let me raise a Brazil issue, you know, with regard to the issue of intellectual property rights for biotech soybeans, which I do hope would be on Ambassador Zoellick's agenda and then, Dr. Penn, on yours.

The testimony we will hear from Monsanto and the American Soybean Association indicates they are preparing a plan to collect royalties on exports of Roundup Ready soybeans from Brazil to help level the playing field between U.S. farmers who pay tech fees and Brazilians who do not.

What has the administration done to address Brazil's failure to enforce Monsanto's patent? Can the administration assist Monsanto in enforcing its right in countries where Roundup Ready soybeans have patents and that import Brazilian soybeans or soybean products, such as the European Union or Japan?

Again, the issue here is one of a level playing field, of American growers paying patent protection, the very same product being grown elsewhere without paying for that, the disparity then in the competitive playing field. Either Ambassador Johnson or Dr. Penn.

Dr. PENN. Well, let me keep Al from being overexposed here, and offer a short response, and then he can add to that.

We are, of course, very concerned about intellectual property rights and about the enforcement of intellectual property rights and international law and the agreements that are reached. And so we are very interested in seeing that these patent rights are upheld and that the international agreements are honored.

I only heard about the new Monsanto ASA plan yesterday, so I have not had a chance to thoroughly examine that, but I hope to do that. And certainly during our visit to Brazil, we will be meeting with various government officials, and we are certainly going to make them aware of our concerns and of our objectives, as I have just stated.

Senator COLEMAN. And, Dr. Penn, I do want to add my voice to thanking the administration for moving forward on the biotech issue as regards to the European Union. And, in fact, I think these issues are actually tied together. My understanding of it is that Brazil biotech soybeans if they are sold to the EU, they are biotech soybeans under the guise that they are non-biotech.

You have the EU in a situation now where they are holding off approval of biotech Ag products. You have the EU going further than that in regard to some African countries that are rejecting U.S. food aid, countries wherein there is a great deal of starvation. I think this almost borders on—and I use harsh words here—you know, fostering genocide, that you have countries that are—that people are dying of starvation and they are being encouraged not to buy, not to use, not to buy, not to receive, not to take an American product that is biotech. And yet you may well have a situation where companies that do not pay the royalties and do not acknowledge it even though, well, we know that the products are being grown there, are being shipped and being used, I think there is a situation here that really needs to be dealt with, and that we need to ensure our trade agreements include strong enforcement of patents.

And, again, we will hear from Monsanto today, but I just think that needs to be on the agenda. It is a very, very, very important issue.

I will yield to my colleague who said that he had a couple of followup questions.

Senator Enzi.

Senator ENZI. Thank you, Mr. Chairman.

Dr. Penn, the administration has taken a very firm position, which I applaud, that domestic support programs cannot be negotiated in the FTAA. So my question is: How do you propose to deal with agricultural imports that undermine a U.S. program adopted by Congress?

Dr. PENN. Well, Senator, as Ambassador Johnson said, the negotiations are being carried forward on three pillars: On export subsidies, on market access, and on domestic supports.

And as he also indicated with respect to the WTO negotiations, everything is on the table. All of the commodities and all the products are on the table, and that is the way it has to be in a multilateral negotiation because as has also been noted, it is not possible to deal with domestic supports in a bilateral or a regional context. You can only deal with those in a multilateral context.

Market access, of course, you can deal with in the bilateral agreements that we are trying to negotiate. So we are placing all products, all commodities on the table in the bilateral negotiations, and looking to get a balanced package so that we make adjustments along with everybody else, and that we gain market access that we have not heretofore had.

Senator ENZI. Thank you. I will go back to Ambassador Johnson. I was pleased to see the Department of Commerce's recent determination of dumping by the Canadian Wheat Board. I know that USTR played an important role in pushing for that investigation.

Can you talk about that role and what the process will be from here? What happens next? It fits back in with the enforcement that we talked about earlier.

Ambassador JOHNSON. Well, first of all, let me just go back to about a year ago when—or a year ago last February, when we made the determination as to how we were going to proceed with the Canadian Wheat Board. We said we were going to do four things. We said, first of all, that we were going to aggressively pursue the WTO disciplines in exports state trading enterprises or, as I like to call them, monopolies, such as the Canadian Wheat Board. And we put forward a very ambitious proposal, which so far is part of that negotiations. It was actually in the chairman's draft, a lot of the disciplines that we asked for.

We said that we were going to do consultations with Canada, which we did. We said that we were going to file a WTO case against the Canadian Wheat Board, which we did. And we—and this is on your commerce question. We have to be careful, because USTR is a—that is a quasi-judicial process, so USTRs' involvement in it was really just trying to be a facilitator, helpful as we can. But the determinations both for AD and CVD have occurred, which was the other—that was the fourth part.

Now, in the coming months, you will see a determination of injury, and that will be worked with the ITC, and from that, the decision will be made what happens with that.

In terms of the WTO case, a panel has been formed, and that case will be going forward and adjudicated in the coming time, through the rest of the year basically. And the WTO negotiations I already described.

Senator ENZI. Thank you.

Ambassador JOHNSON. I would like to just make one comment, if I could, on your biotech point, which is: On this WTO case against Europe on biotech, it is worth noting that a number of countries in this hemisphere joined us in this case, including Argentina, as a co-complainant in this. So we are looking forward to—we have a lot of common interest in the hemisphere on this issue. And it is one that, for all the reasons you mentioned, we consider to be extremely important, not just from a trade standpoint, but as a way of providing for new technologies to meet the demands of the world that we are going to be living in in the coming decades. Thank you.

Senator ENZI. Thank you.

Senator COLEMAN. Thank you very much, Ambassador Johnson. I am going to make one comment before I turn it over to the distinguished ranking member for a statement and then an opportunity to do some questioning.

You made a comment, Ambassador Johnson, you talked about the administration's position regarding domestic support programs essentially should not be negotiated in FTAA but rather than in the context of WTO, and we do not want to unilaterally disarm our producers, argue counterpoints.

I do want to make the comment about sugar, and I am not going to ask a question here, but I want to raise the issue. And we have raised it in private discussion, but I want to raise it very publicly that if it is important to maintain a current safety net for commodities, receiving domestic support, and we all agree on that, should we not also maintain the current safety nets for sugar?

And I would urge the administration to carefully reconsider its position relative to sugar, as a matter of consistency with its handling of domestic subsidies. I do not need a response on that, but I do want to make the statement and make the position very, very clear because I think it is important.

With that, I would turn it over to the distinguished ranking member, who has probably forgotten more about Latin America than I know. And I do appreciate his being here. I know he had some other engagements, but I want to welcome him and give him the opportunity to make a statement.

Senator DODD. Well, thank you very much, Mr. Chairman. And my apologies to the witnesses and other members. We had an extended markup of a nominations in the Banking Committee and a hearing on the Fair Credit Reporting Act, which is a major issue. So I apologize in getting down here an hour late.

Senator COLEMAN. Senator Dodd, before you—I know that Dr. Penn has indicated he needs to leave sometime shortly after 3:30, so if he has to leave, it would not be because of anything that is in your statement. He has indicated that.

So, Dr. Penn, if you have to exit at a certain point in time you are certainly excused.

Dr. PENN. Thank you very much, Mr. Chairman.

Senator DODD. Yes. We will watch and see exactly at what point in my statement you leave.

Dr. PENN. I have to go now.

Senator DODD. Well, first of all, thank you, Mr. Chairman. Let me congratulate you on holding this hearing, which is on a tremendously important subject matter. And this is obviously to focus on the economic issues, the future of economic relations in the Western Hemisphere, and the success of the tremendous progress that has been made with the emergence of so many democratic nations in the hemisphere in the last number of years, all directly hinges upon the success of these countries to perform economically. And if they do not perform well economically, then the likelihood they are going to succeed democratically is immediately in jeopardy.

So this is about as critical a set of issues as you can have when you are talking about the region. Certainly, America and its neighbors today have made considerable advances toward expanding and liberalizing trade relations in our hemisphere, which is a key element, obviously, in economic stability.

Over the past two decades, we have witnessed the establishment and implementation of significant initiatives, such as the North American Free Trade Agreement, the Andean Trade Preference Act, The Caribbean Basin Economic Recovery Act. All three have brought increased cooperation and communication.

They have been positive forces, in my view, to promote political and economic stability, as well as growth and democracy to this hemisphere. Indeed, healthy and strong trade relations contribute to the vibrancy of the nation's economy.

In 2002, the United States' agricultural exports to the Western Hemisphere, and I am sure you have already made reference to this, were $4.2 billion. If the NAFTA countries are included in this calculation, the total amounts to over $20 billion.

These statistics are an obvious indication of the substantial benefits that accrue to the United States from such agreements. As we all are aware, Latin America and the Caribbean have many significant problems.

Throughout the past years, some of our neighbors in this hemisphere have been plagued by economic and political instability, narco-terrorism, and the public health challenges. The illegal narcotics trade and its devastating impacts persist. Poverty rates are very, very high. And access to education and healthcare remain alarmingly limited.

From the southern tip, southernmost tip of the South American Continent to closer to home in the Caribbean region, many of our friends and allies have been struggling to create and ensure a safe and secure future for their own people.

I strongly believe that successful efforts to achieve a Central American free trade agreement, and eventually in 2005 a free trade agreement of the Americas, will help further these goals. As well, the United States stands to benefit along with our neighbors, from increased trade relations throughout this hemisphere.

Toward that end, I am encouraged that CAFTA negotiations appear to be on track, with the fourth of nine rounds taking place just this past week. Hopefully CAFTA will finally be finalized according to the current timetable at the end of 2003. I am also heartened that FTAA negotiations are continuing to move forward. And I look forward to the presentation of the third draft agreement in the next scheduled meeting in late November 2003.

However, although FTAA and CAFTA are on the horizon, we must not neglect individual initiatives, such as the Chilean or Chile Free Trade Agreement, which is currently awaiting the President's signature. By implementing the Chile FTA, the United States will be sending a very clear signal that we are going to continue the close and essential relationships that we have established with our partners in the Southern Hemisphere.

Given the many difficulties facing the region, as well as doubt over the intentions of the United States with regards to FTAA, the importance of a Chile FTA could not be overstated. Certainly there are a number of subjects that need to be addressed during the FTAA negotiations.

First, reaching an accord with participating nations on agricultural issues will be of prime importance to the success of any agreement. As we can already see from the current efforts, the successful crafting of agricultural provisions is a complicated process. Therefore, it is my hope that the administration will work vigorously and together with our partners to shape a practical, sensible and viable agricultural policy for the future of FTAA.

Second, I think it is very important that the commitments of participating nations to the World Trade Organization in matters such as the protection of intellectual property laws are maintained. And for those nations that are not currently in compliance with WTO standards, I believe it is imperative that in the coming years, they take measures to bring themselves into compliance. Many nations have already begun this process, and it is my hope that this positive trend continues.

I also understand that certain sectors of the American industry have fared less well than others under the increased competition brought on by international trade. That is why I strongly believe it is imperative that the President implement the powers given to him under the Trade Promotion Authority. If he takes all the necessary measures to ensure that our trading partners comply with important labor and environmental standards, not only would this help safeguard the lives of workers globally, and the natural resources on which we all depend, it will help ensure that American companies can successfully compete in today's global marketplace.

FTAA is the economic future of our hemisphere. The examples set by the previous agreements, such as NAFTA, are very clear. NAFTA has bound the United States, Canada, and Mexico more closely together. It is an important aspect of our close relationship with these nations.

The establishment of FTAA will require that we develop similar relationships with our neighbors throughout the hemisphere. Such relationships are the key to promoting America interests at home and abroad.

Today's hearing with its focus on agricultural issues, I think are going to help us understand the issues that we must mutually find answers to in order to ensure that those interests are maximized.

Mr. Chairman, let me just repeat, again, I mentioned the Chilean issue before, and I will just repeat it again. My hope is—and I know that there are those who are still—"angry" may not be the right word—but disappointed in how Chile voted at the U.N. on the U.N. resolutions involving Iraq. But we have got to get beyond that here at this point.

We can express those views in a lot of ways, but these agreements are not just favors to Chile or favors to other countries. They are very good for us. And so by delaying this or by playing games with them, we do not just do any harm to Chile; we do a lot of damage to ourselves and in the hemisphere.

So I hope out of this hearing, a message will get through to the administration, particularly those who understand these economic issues. If you mess around this too long, you are going to lose this. We are going to have a tough time; we are getting closer to national elections, and if you do not get this done, along with Singapore, you are going to miss an opportunity, and you will miss it in this Congress. And we will be back at it again in a future Congress. And I do not know how that comes out.

So the window is closing. It is closing every single day we wait on this. And my hope is the administration will hear that message and get about the business of signing that agreement and getting it up and getting it moving. If we end up with it next fall or next winter, you will not get it, in my view. We will not get it. It will not get done.

I thank you, Mr. Chairman.

Senator COLEMAN. Thank you very, very much, Senator Dodd. Senator Dodd, you have the opportunity if you want to ask any questions, while the Ambassador is here.

Senator DODD. Well, I will ask you that one. Where do you think we stand on this Chilean thing? What are you telling people?

Ambassador JOHNSON. I am telling them it is a good deal for U.S. agriculture. That is what I am telling them. We went through that earlier when you were not here.

Senator DODD. Yes. I apologize.

Ambassador JOHNSON. But basically we are going through a review of that agreement. I know it is under consideration for moving forward. As you know, we negotiated the agreement back in December and it was notified, the Congress, the intent to sign or the intent to enter in an agreement back in January, and that has now expired.

So we can sign it at any time. Although I think—I know that our lawyers are working hard at and including interaction with some of our advisors in going through and making sure that we have got all the I's dotted and T's crossed.

Senator DODD. Well, tell them the message up here, because these things are hard. I have been around here enough years to know how tough these agreements can be. Even the bilateral ones are hard. And if they do not get this done soon, this economy is not getting better every day. And then the pressures are going to grow, and particularly when people are starting to demand more at home and layoffs continue—if we end up with 80,000 job losses every month, and every month hereafter, you are going to have an awful time getting these things done. So I would hope you would convey that message.

Ambassador JOHNSON. Yes, sir.

Senator COLEMAN. And certainly, Senator, the Chilean agreement can serve as a model for others. So I think the message is loud and clear. Across both sides of the aisle, we need to get it done.

With that, we will excuse the witness. Thank you very, very much, Ambassador Johnson.

We would now like to invite the second panel of witnesses to the table.

Mr. Bart Ruth from Rising City, Nebraska, chairman of the American Soybean Association; Mr. Carl Casale from St. Louis, Missouri, vice president of North America Agriculture for the Monsanto Company; Mr. Bobby Greene from Courtland, Alabama, chairman of the National Cotton Council; Mr. Doug Boisen from Minden, Nebraska, chairman of the National Corn Growers Association Trade Task Force; Mr. Jack Roney from Arlington, Virginia, director of Economics and Policy Analysis for the American Sugar Alliance; Mr. Jim McDonald from Grangeville, Idaho, chairman of the Wheat Export Trade Education Committee.

I understand Mr. McDonald has a plane to catch, and I understand how that goes, Mr. McDonald, so what I will do is I will turn to you and you may begin.

Mr. MCDONALD. Thank you, sir.

STATEMENT OF JIM McDONALD, CHAIRMAN, WHEAT EXPORT TRADE EDUCATION COMMITTEE AND U.S. WHEAT ASSOCIATES, GRANGEVILLE, ID

Mr. MCDONALD. Thank you. Good afternoon. My name is Jim McDonald. I am a wheat producer from Grangeville, Idaho, and I am the chairman of the Wheat Export Trade Education Committee and U.S. Wheat Associates. And today I also represent the National Association of Grain Growers.

The United States generally exports between 40 and 50 percent of our wheat production. In the Pacific Northwest, where I farm, the percentage is much higher. As a trade-dependent commodity, therefore, our success or failure hinges on our ability to expand U.S. wheat export markets.

The wheat industry strongly supports moving forward aggressively in both the World Trade Organization and the Free Trade Area of the Americas negotiations. The WTO process is important for liberalizing world wheat trade, and the U.S. wheat industry has a clear set of goals in this round of negotiations. However, just as the North American Free Trade Agreement provided great market opportunities and clear successes for wheat, the FTAA can extend liberalization beyond the level envisioned in the WTO, and holds tremendous market growth potential for U.S. wheat producers.

As an added benefit, alliances gained in the FTAA can carry over into the WTO negotiations where there are some extremely contentious differences. We believe that a strong commitment in the hemisphere can be a very positive force against the European Union's protectionist positions.

The United States, including our industry, is on the brink of major opportunities offered by the FTAA. First, however, several important issues must be addressed in negotiations: market access, state-trading enterprises, monopoly practices, export subsidies, and sanitary/and phytosanitary issues. Resolutions of these issues must result in freer and fairer trade among the countries of the Americas.

Before I move to the discussion of those issues and their effects on the wheat market, let me make an important point on what we should not be negotiating. The United States must refrain from negotiating on domestic supports within the context of the FTAA.

It would be unwise to unilaterally disarm within the hemisphere while leaving the EU to continue subsidizing their products at high levels. We concur with the U.S. position encouraging the countries within the hemisphere to work together in the WTO to substantially reduce and more tightly discipline state trade distorting domestic support.

The benefits of free trade can clearly be seen in the dramatic increase in wheat exports following the North American Free Trade Agreement. U.S. wheat exports to Mexico have soared 48 percent over the last 5 years. And this year's record exports to Mexico will reach over 2½ million tons, making Mexico our second largest wheat customer in the world.

The FTAA must be negotiated so that we have duty-free access to Brazil, along with all other markets in Central and Latin America, and it must give us access on a par with Argentina and Canada to the entire hemisphere and the growing economies of 800 million people.

The U.S. wheat industry vigorously agrees with the U.S. Government position that calls for the elimination of all trade-distorting export subsidies within the hemisphere and the establishment of a mechanism that would prohibit agricultural products from being exported through the FTAA by non-FTAA countries with the aid of export subsidies.

We are also very encouraged by the U.S. position opposing state trading enterprises within the hemisphere. CUSTA and NAFTA left unresolved issues between the United States and Canada, and we must not allow these unresolved issues to be carried into the FTAA.

U.S. wheat producers agree with the U.S. FTAA negotiating position that the tariff methods and modalities agreed to must be fair and reasonable to ensure the benefits of free trade are broadly distributed. Since the average U.S. tariff on agricultural imports is about 12 percent, while the rest of the world exceeds 60 percent, reducing high tariffs must be a priority in the FTAA discussions.

We also agree with the U.S. proposal to use the lower of either a product's most favored nation applied rate in effect during the negotiations or the WTO bound rate at the end of the negotiation process. This will ensure that the reduction will substantially open markets to U.S. products. Whichever rate is used, it should become a bound rate to add stability in the region.

In addition to negotiations on tariffs, action must be taken to address problems in tariff rate quota administration and price band systems. We are very pleased with the provisions of the Chile Free Trade Agreement that eliminate the use of price bands, and we hope this sets a guideline for the FTAA negotiations.

The importance of environmental protection and labor standards is without question. However, these concerns may be more appropriately addressed in other forums and by other methods than through FTAA negotiations. The U.S. wheat industry is concerned that an effort to link environmental and labor concerns to trade may hinder negotiating leverage or impinge on the goals of trade liberalizing negotiations.

We are especially concerned about any proposal to use trade as an enforcement mechanism, through the imposition of sanctions, in pursuing goals in these areas, however desirable the goals may be. We believe that ultimately the most successful resolutions to these concerns can only happen if our trading partners are assured that the United States does not intend to use sanctions to bully them into relinquishing their sovereignty with respect to environmental and labor standards.

The wheat industry is very concerned that the many multi-environmental agreements [MEAs] may disrupt trade around the world. There has been insufficient discussions on how these agreements work with, or conflict with, WTO rules. Of immediate concern is the Cartagena Protocol on Biosafety, adopted by the Conference of the Parties to the United Nations Convention on Biodiversity in Montreal on January 29, 2000.

Our markets are at risk of intended and unintended consequences from the growing number of MEAs, and particularly those dealing with use of new technology. Our negotiators must use all available negotiating opportunities, with the FTAA and elsewhere to ensure that the WTO is paramount and that sound science prevails in disputes that may arise from use of biotechnology and other technologies from MEAs.

In conclusion, the wheat industry is very pleased by the U.S. position on agriculture in the FTAA and for the Doha Round of the WTO. We believe that the U.S. trade policy is headed in the right direction.

To recap, our positions, we need duty-free access to Brazil. The unfair advantages given to the Canadian Wheat Board monopoly must be ended. We cannot allow monopoly actions to be legalized in the FTAA. Reducing high tariffs must be a priority in the FTAA discussions. Existing price band mechanisms for wheat and flour should be eliminated, replaced by a system of tariffs, which would be phased out. A risk assessment framework, including an expedited process, should be established to address sanitary and phytosanitary disputes. Environmental and labor issues should not unnecessarily hinder our trade opportunities.

The final agreement must ensure that sound science and WTO rules prevail, especially in regards to biotechnology. The existing barriers to trade and travel to Cuba should be removed. Reconsideration should be given to Cuba's exclusion in the FTAA.

Thank you for this opportunity to speak on behalf of the wheat industry.

Senator COLEMAN. Thank you very much, Mr. McDonald.

[The prepared statement of Mr. McDonald follows:]

PREPARED STATEMENT OF JIM MCDONALD, CHAIRMAN, WHEAT EXPORT TRADE EDUCATION COMMITTEE AND U.S. WHEAT ASSOCIATES

Good Morning, members of the committee. My name is Jim McDonald and I am a wheat producer from Grangeville, Idaho. I am the Chairman of the Wheat Export Trade Education Committee and U.S. Wheat Associates, and today I also represent the National Association of Wheat Growers.

The U.S. generally exports between 40 and 50 percent of our wheat production. In the Pacific Northwest, where I farm, the percentage is much higher. As a trade-dependent commodity, therefore, our success or failure hinges on our ability to expand U.S. wheat export markets.

The U.S. wheat industry strongly supports moving forward aggressively in both the World Trade Organization and Free Trade Area of the Americas negotiations. The WTO process is important for liberalizing world wheat trade, and the U.S. wheat industry has a clear set of goals in this round of negotiations. However, just as the North American Free Trade Agreement provided great market opportunities—and clear successes for wheat—the FTAA can extend liberalization beyond the level envisioned in the WTO, and holds tremendous market growth potential for U.S. wheat producers.

As an added benefit, alliances gained in the FTAA can carry over to the WTO negotiations where there are some extremely contentious differences. We believe that a strong commitment in the hemisphere can be a very positive force against the European Union's protectionist positions.

The U.S.—including our industry—is on the brink of major opportunities offered by the FTAA. First, however, several important issues must be addressed in negotiations: market access, state-trading enterprises, monopoly practices, export subsidies, and sanitary/and phytosanitary issues. Resolutions of these issues must result in freer and fairer trade among the countries of the Americas.

Before I move to a discussion of those issues and their effects on the wheat market, let me make an important point on what we should NOT be negotiating. The U.S. must refrain from negotiating on domestic supports within the context of the FTAA. It would be unwise to unilaterally disarm within the hemisphere while leaving the EU to continue subsidizing their producers at high levels. We concur with the U.S. position encouraging the countries within the hemisphere to "work together in the WTO to substantially reduce and more tightly discipline trade-distorting domestic support."

AN FTAA OFFERS MARKET OPPORTUNITIES FOR WHEAT

The benefits of free trade can clearly be seen in the dramatic increase in wheat exports following the North American Free Trade Agreement. U.S. wheat exports to Mexico have soared 48% over the last five years, and this year's record exports to Mexico will reach over two and a half million tons, making Mexico our second largest customer in the world.

U.S. wheat exports are doing well in Central America and the Caribbean too. During the last five years, U.S. wheat market share in the Caribbean has averaged 75-80%. We are posting significant gains in Central America, where we currently have a 70% market share, and the situation is looking particularly bright in Guatemala and Costa Rica.

While Mexico, the Caribbean and the Central American region are marked by success, however, the South American region is marked by a tougher struggle for market access and market share. U.S. wheat exports to South America have been about 2 million metric tons (MMT) for the past ten years. Conversely, Argentina's exports within the region have gone from 1.6 MMT to 8.2 MMT. The total value of wheat exports to the region is $1.6 billion, with the total value of U.S. exports amounting to just $220 million.

It is expected that South America will experience a five-percent growth rate in wheat imports, and we look to the FTAA to give U.S. wheat a more level playing field on which to compete.

Recently, Brazil has imported almost eight million tons of wheat each year. Despite an U.S. logistical advantage to northern Brazil, the country has been basically a captive of Argentine wheat because of the MERCOSUR arrangement that puts the U.S. at an unfair disadvantage due to a tariff differential.

The U.S. wheat industry also faces difficulties in Guatemala, Peru, Columbia and Venezuela as a result of the monopolistic trading practices of the Canadian Wheat Board (CWB), an anachronistic state trading enterprise. When it has ample stocks, the CWB intentionally undercuts U.S. wheat prices in these markets (and others), and is able to do so not because of a legitimate competitive advantage, but due to unfair trading practice.

The FTAA must be negotiated so that we have duty-free access to Brazil, along with all other markets in Central and Latin America, and it must give us access on a par with Argentina and Canada to the entire hemisphere and the growing economies of 800 million people.

EXPORT COMPETITION MUST BE ON A LEVEL PLAYING FIELD

The U.S. wheat industry vigorously agrees with the U.S. government position that calls for the elimination of all trade-distorting export subsidies within the hemisphere and the establishment of a mechanism that would prohibit "agricultural products from being exported to the FTAA by non-FTAA countries with the aid of export subsidies."

We are also very encouraged by the U.S. position opposing state trading enterprises within the hemisphere. CUSTA and NAFTA left unresolved issues between the U.S. and Canada, and we must not allow these unresolved issues to be carried into the FTAA.

The CWB's state-supported export monopoly controls virtually every aspect of wheat production in the western Canadian provinces, including varietal control, day-to-day execution of sales contracts and long-term market development. It is the largest single grain marketing board in the world, with monopoly control of about 20 percent of world wheat and barley trade. To put it into perspective, recall the Cargill acquisition of Continental's grain business. Together, the two merged companies control roughly 20 percent of U.S. wheat exports, or about 228 million bushels, based on a five-year average. In contrast, the CWB controls annual average wheat exports of 680 million bushels, or about three and half times as much as Cargill and Continental combined.

As a government-supported grain monopoly, the CWB uses discounted price offers, bonus deliveries, supplemental cleaning, delayed payments, indirect transportation subsidies, and other favorable contract terms to often undercut U.S. grain prices. Canadian producers have little say in marketing their crop, and they receive only about 80 percent of its value when turned over to the CWB. No private company that faces commercial risk and stockholder oversight has such control, nor can any offer wheat at whatever price it chooses.

While we are very optimistic about market growth in the Western Hemisphere, U.S. wheat producers have had numerous problems with specific provisions of previous trade agreements in the hemisphere. The Canada-U.S. Free Trade Agreement of 1988, CUSTA, resulted in memorializing trade inequities between U.S. and Canadian farmers. Regrettably, CUSTA talks to open the CWB marketing system to competition were unsuccessful and, even worse, CUSTA actually gave the CWB an advantage over U.S. wheat producers in the U.S. market. Without getting too technical, the two sides agreed (very mistakenly) that the CWB's cost of acquisition was equivalent to the CWB's initial price. (The CWB provides the "initial price" to its growers when they deliver wheat to the pool.) In truth, according to CWB documents, the initial price amounts to about 80 percent of the final price farmers in Canada receive for their wheat after all pool accounts are completed.

We believe that the inequities established in the CUSTA have encouraged the injurious surge of wheat exports from Canada to the United States. Over the last decade, this issue has been one of the single biggest sources of contention along the U.S.-Canada border and one that continues today. Despite the urging of the wheat industry, NAFTA provided no resolution of the Canadian trade issues.

In 2001 the North Dakota Wheat Commission filed a Section 301 petition with the Office of the U.S. Trade Representative. USTR initiated its investigation of the CWB under section 301 at the urging of the Wheat Export Trade Education Committee, the National Association of Wheat Growers, U.S. Wheat Associates, the American Farm Bureau Federation, the National Farmers Union and every state wheat commission.

In February 2002, after a review of the investigation, USTR released an "affirmative finding" that detailed the CWB's monopolistic characteristics. The USTR found "that the acts, policies and practices of the Government of Canada and the CWB are unreasonable and burden or restrict U.S. commerce." Based on the findings, the USTR concluded that "the CWB's subsidies, protected domestic market, special benefits and privileges disadvantage U.S. wheat farmers and infringe on the integrity of a competitive trading system."

With the affirmative finding, U.S. Trade Representative Robert B. Zoellick also announced "that the United States will pursue multiple avenues to seek relief for U.S. wheat farmers from the trading practices of the Canadian Wheat Board (CWB), a government monopoly trading enterprise." This included taking a possible dispute settlement case against the Board in the World Trade Organization, working with the U.S. industry on possibly filing U.S. countervailing duty and antidumping petitions, and working towards market access for U.S. wheat exports to Canada.

The U.S. industry has made specific, realistic suggestions for addressing the underlying problems with the CWB. Our particular focus has been to end the state-mandated monopoly, subjecting the CWB to market discipline. The proactive actions taken by the NDWC and the U.S. wheat industry were intended to work in conjunction with multilateral and regional negotiations on export state trading entities, and any final agreement must provide effective discipline over the CWB's activities in the hemisphere.

The national wheat organizations are very pleased at the progress that has been made on this long-standing issue. We are especially pleased that the Department of Commerce has confirmed that the Canadian Wheat Board is dumping into the U.S. market. The Department of Commerce will begin imposing an 8.15 percent duty on Durum wheat and a 6.12 percent duty on Hard Red Spring Wheat.

The U.S. wheat industry has proven its case and we must not allow monopoly actions to be legalized in the FTAA or any future trade agreements.

ADDRESSING MARKET ACCESS ISSUES OF TARIFFS, PRICE BANDS, AND TRQ'S

U.S. wheat producers agree with the U.S. FTAA negotiating position that the tariff methods and modalities agreed to must be "fair and reasonable" to "ensure the benefits of free trade are broadly distributed." Since the average U.S. tariff on agricultural imports is about twelve percent, while the rest of the world exceeds sixty percent, reducing high tariffs must be a priority in the FTAA discussions.

We also agree with the U.S. proposal to use the lower of either a product's "most favored nation" applied rate in effect during the negotiations or the WTO bound rate at the end of the negotiating process. This will ensure that the reduction will substantially open markets to U.S. products. Whichever rate is used, it should become a bound rate to add stability in the region.

In addition to negotiations on tariffs, action must be taken to address problems in tariff rate quota administration and price band systems. We are very pleased with the provisions of the Chile Free Trade Agreement that eliminate the use of price bands and we hope this sets a guideline for the FTAA negotiations. We would like to see the elimination of the existing price band mechanisms for wheat and flour, to be replaced by a system of tariffs that would be phased out over an implementation period. The tariffs should be reasonable and should not constitute new trade barriers. We compliment Chile, the principal user of the price band system for wheat, for looking at ways to remove the bands in accordance with World Trade Organization findings that their bands are illegal.

Those countries that administer TRQ's do so in a variety of ways, from auctioning to allocation of licenses to producer groups, which clearly hinder U.S. exports. The duties outside the quotas must be targeted for reduction. Additionally, the fill-rate of tariff quotas appears to be very low among some countries, resulting in part from bad TRQ administration. To correct this problem, the U.S. may want to consider an incentive-based system to encourage increased imports where fill rates are low.

We concur with the U.S. market access "Tariffs and Non-Tariff Measures Text." This proposes a level playing field by requiring all FTAA countries to grant "national treatment" to products from other FTAA countries, the elimination of import and export restrictions and increasing transparency resulting in reductions in the cost of doing business in the Hemisphere.

RISK ASSESSMENT IS NEEDED FOR SANITARY AND PHYTOSANITARY (SPS) ISSUES

The proliferation of sanitary/phytosanitary issues has resulted in the slowing or—in some especially egregious cases—the temporary cessation of trade with some countries. We must build upon the Uruguay Round Agreement on Agriculture with respect to plant, health and safety. In particular, negotiations to expand NAFTA into a hemispheric agreement must establish a risk assessment framework, as well as the creation of an accepted and expedited procedure for addressing sanitary/phytosanitary disputes when they arise among signatories to the FTAA. We also believe that trade in new technologies is adequately addressed in the SPS/TBT agreements of the World Trade Organization and should not be revisited in these negotiations.

LABOR AND ENVIRONMENTAL STANDARDS SHOULD BE ADDRESSED IN OTHER FORUMS

The importance of environmental protection and labor standards is without question; however, those concerns may be more appropriately addressed in other forums and by other methods than through FTAA negotiations. The U.S. wheat industry is concerned that an effort to link environmental and labor concerns to trade may hinder negotiating leverage or impinge on the goals of trade liberalizing negotiations.

We are especially concerned about any proposal to use trade as an enforcement mechanism, through the imposition of sanctions, in pursuing goals in these or other areas, however desirable the goals may be. We believe that ultimately the most successful resolutions to these concerns can only happen if our trading partners are assured that the U.S. does not intend to use sanctions to "bully" them into relinquishing their sovereignty with respect to environmental and labor standards.

MEAS SHOULD NOT DISRUPT TRADE

The wheat industry is very concerned that the many Multilateral Environmental Agreements (MEAs) may disrupt trade around the world. There has been insufficient discussion on how these agreements work with—or conflict with—WTO rules. Of immediate concern is the Cartagena Protocol on Biosafety, adopted by the Conference of the Parties to the United Nations Convention on Biodiversity in Montreal on January 29, 2000.

The Protocol is designed to contribute "to the safe transfer, handling and use of living modified organisms" resulting from modern biotechnology, "that may have adverse effects on the conservation of sustainable use of biological diversity, taking also into account risks to human health, and specifically focusing on transboundary movements."

As of May 6, 2003, 103 countries have signed and 46 countries of the required 50 have ratified the Protocol. We expect that the full 50 countries will have ratified the agreement this summer, bringing the commitment into force within 90 days of ratification. The Biosafety Protocol has created many unknowns for traders around the world, the most basic of which is the undefined relationship to WTO agreements. Included in the written copy is background information on this issue.

Our markets are at risk of intended and unintended consequences from the growing number of MEAs, and particularly those dealing with use of new technologies. Our negotiators must use all available negotiating opportunities, with the FTAA and elsewhere, to ensure that the WTO is paramount and that sound science prevails in disputes that may arise from use of biotechnology and other new technologies and from MEAs.

TRADE MUST BE WITH ALL COUNTRIES IN THE AMERICAS

Finally, to take full advantage of trading opportunities in the Americas, we need access to all of our neighboring markets. Congress must remove the Cuban sanctions. While no one condones recent human rights violations by Fidel Castro, we strongly believe that opening travel, trade and dialogue creates the best opportunities for the Cuban people.

CONCLUSION

The wheat industry is very pleased by the U.S. Position on Agriculture in the FTAA and for the Doha Round of the WTO. We believe that the U.S. trade policy is headed in the right direction.

To recap, our positions are:

- We need duty-free access to Brazil.
- The unfair advantages given to the CWB monopoly must be ended. We cannot allow monopoly actions to be legalized in the FTAA.
- Reducing high tariffs must be a priority in the FTAA discussions.
- Existing price band mechanisms for wheat and flour should be eliminated, replaced by a system of tariffs, which would be phased out.
- A risk assessment framework, including an expedited process, should be established to address sanitary/phytosanitary disputes.
- Environmental and labor issues should not unnecessarily hinder trade opportunities.
- The final agreement must ensure that sound science and WTO rules prevail, especially in regards to biotechnology.
- The existing barriers to trade and travel to Cuba should be removed. Reconsideration should be given to Cuba's inclusion in the FTAA.

The U.S. wheat industry has worked for over 50 years to expand export markets, and we are committed to doing all we can to secure fair and open trading practices around the world. We stand ready to work with you towards a successful outcome of these negotiations in order to realize the market potential of an FTAA and solidify alliances with our neighbors.

Thank you for this opportunity to speak on behalf of the wheat industry.

Senator COLEMAN. I understand you have a plane to catch. We will excuse you. I was going to ask a question. I know you have concerns about the Canadian Wheat Board, but we can get into that at another time. I thank you for your statement.

Mr. MCDONALD. Mr. Nelson is here from the U.S. Wheat Office and he would be glad to answer any questions you have concerning the wheat industry.

Senator COLEMAN. Great. Thank you very, very much, Mr. McDonald. I appreciate it.

Mr. MCDONALD. Thank you.

Senator COLEMAN. Mr. Ruth.

STATEMENT OF BART RUTH, CHAIRMAN, AMERICAN SOYBEAN ASSOCIATION, RISING CITY, NE

Mr. RUTH. Good afternoon, Mr. Chairman and members of the subcommittee. I am Bart Ruth, a soybean and corn producer from Rising City, Nebraska, and chairman of the American Soybean Association.

We appreciate the opportunity to appear before you today, as we find ourselves deeply engaged in assessing our competitiveness in the world, and particularly with the growth in agricultural production and exports from South America. How we all decide to address this challenge will affect the profitability and prosperity of our national agricultural economy, and of the overall U.S. economy, for years to come.

The expansion of the U.S. soybean industry has been a tremendous success story over the past 30 years. From 46 million acres and 1.3 billion bushels in 1972, U.S. soybean production grew to 72 million acres and 2.7 billion bushels in 2002.

Prospects for future growth in world demand for both soybean meal and soybean oil are quite bright. Our goal is to position the U.S. soybean industry to maximize our return from the growing global market over the next century. Our industry has strongly supported expanding international trade by reducing tariffs and eliminating other trade barriers in order to increase access and encourage demand for soy and livestock products in global markets.

The rise in competition from South American exporting countries, and the certainty that it will increase over the next several decades, make aggressive opening of major developing country markets in the Doha negotiations essential.

Let me now briefly summarize the rise in soybean production and exports in Brazil and particularly the rapid expansion in the central west region known as the Cerrados.

The Economic Research Service estimated in 2001 that Brazil has approximately 338 million acres in the Cerrados region alone available for land clearing and new crop production, an area which is one and one-third times larger than the total acreage devoted to row crop production in the United States.

Trends indicate that the expansion of land clearing and agricultural production in the Cerrados is still accelerating. Many agricultural economists expect soy acreage in Brazil to total 94 million acres in 10 years, which would greatly surpass current U.S. acreage of 72 million acres. Nor are soybeans the only crop facing expanding competition.

Cotton production has nearly doubled in 5 years, and corn is up by 23 percent. Brazilian officials also predict a major expansion in pork and poultry production. Clearly, our industry and others that are dependent on export markets face a serious and growing challenge.

The following are some of our key recommendations for responding to this competitive challenge. The United States has a distinct advantage over Brazil in transportation costs, and it is important that we do all we can to maintain and enhance this advantage.

Approximately 75 percent of U.S. soybeans and soybean products are exported via the Mississippi waterway and its tributaries. Legislation authorizing and appropriating funds for lock modernization and extensions on the Mississippi and Illinois waterways should be a key priority for the administration and Congress.

Another priority would be increased soybean research funding. While U.S. soybean yields are stagnate or only very slowly improving, yields as well as protein and oil content in Brazil have improved rapidly through government and private sector research, and now surpass U.S. yields and protein levels.

Increased U.S. Federal soybean research funding is needed if U.S. soybean producers are to catch up with and keep pace with their Brazilian competitors. The Government of Brazil has played a key role in the development of soybean and other agricultural production in the Cerrados region through policies designed to facilitate clearing of the land, expansion of production, and the earning of foreign exchange through exports.

Much more needs to be done by the U.S. Government to investigate the various policies and subsidies that are helping to fuel the rapid expansion of crop and livestock production in Brazil. And the results of this investigation should be used to formulate appropriate policies and negotiating objectives.

Weak or non-existent intellectual property protection and enforcement in Brazil are benefiting Brazilian growers and hurting the competitiveness of U.S. soybean producers. The combination of Brazilian growers not paying royalties on pirated Roundup Ready soybean seed, along with the economic benefits the Brazilian growers receive from Roundup Ready technology, gives Brazilian growers an ill-gotten competitive advantage over U.S. growers estimated at $20 per acre.

The U.S. Government and companies holding technology patents should actively pursue all possible legal remedies to address this unlevel playing field.

In this regard I would mention that ASA sent letters to both the Commerce Department and USTR urging action against the unfair benefits that illegal use of Roundup Ready soybean technology are providing Brazilian producers.

In addition, ASA commends and strongly supports Monsanto's actions to begin addressing widespread Brazilian piracy of Roundup Ready soybeans through a system that collects royalties on Brazilian soybeans and soybean meal exports to countries where Monsanto has patent protection. ASA calls on U.S. and international soybean traders and processors to cooperate in implementing this system. Non-cooperation would perpetuate the competitive disadvantage U.S. growers and the entire U.S. soybean industry face because of the ongoing theft of Roundup Ready soybean technology by Brazilian farmers. In addition, traders and processors who do not cooperate will be abetting continued piracy of a patented product.

Protecting and enhancing U.S. domestic demand is also key. Whether it be maintaining a healthy and competitive domestic livestock industry, increasing domestic use through a tax incentive that allows biodiesel to be used to help meet our Nation's energy needs, or creating new soy uses, the United States must enhance demand where it has the greatest competitive advantage, in our home market.

Increasing world demand through market access and income growth is a must. The best way to secure worldwide income growth is through a comprehensive trade round that creates new market access opportunities.

In conclusion, Mr. Chairman, U.S. soybean producers are facing a significant challenge from South American farmers, particularly in Brazil. We believe that the opportunity exists to address competitiveness issues both at home and abroad. We look forward to working closely with you and members of the committee to meet these challenges.

I will be happy to respond to any questions. Thank you.

Senator COLEMAN. Thank you very, very much, Mr. Ruth.

[The prepared statement of Mr. Ruth follows:]

PREPARED STATEMENT OF BART RUTH, CHAIRMAN, AMERICAN SOYBEAN ASSOCIATION

Good afternoon, Mr. Chairman and Members of the Subcommittee. I am Bart Ruth, a soybean and corn producer from Rising City, Nebraska, and chairman of the American Soybean Association. ASA is a national trade association representing 26,000 farmer members on domestic and international trade issues important to all U.S. soybean producers. We appreciate the opportunity to appear before you today.

We commend you, Mr. Chairman, for holding this hearing on "The Future of U.S. Economic Relations in the Western Hemisphere: Challenges and Opportunities for American Agriculture." It comes as U.S. soybean farmers, and producers of other crops and livestock as well, find themselves deeply engaged in assessing our competitiveness in the world, and particularly with the growth in agricultural production and exports from South America. How we all decide to address this challenge will affect the profitability and prosperity of our national agricultural economy—and of the overall U.S. economy—for years to come.

BACKGROUND

The expansion of the U.S. soybean industry has been a tremendous success story over the last thirty years. From 46 million acres and 1.3 billion bushels in 1972, U.S. soybean production grew to 72 million acres and 2.7 billion bushels in 2002. Much of this increase has been the result of rising domestic demand for high protein soybean meal to meet the growing popularity of poultry and pork in the U.S. diet, along with rising U.S. soybean, poultry, and pork exports. One of every two bushels raised in the United States is dependent on foreign markets.

Prospects for future growth in world demand for both soybean meal and soybean oil are bright. As the populations of developing countries continue to expand, and as these consumers seek improved variety, nutrition, and protein content in their diet, demand for soy and livestock products can only rise. Our goal is to position the U.S. soybean industry to maximize our return from the growing global market over the next century.

Our industry has strongly supported expanding international trade by reducing tariffs and eliminating other trade barriers to order to increase access and encourage demand for soy and livestock products in global markets. Increased market access was our top priority in the Uruguay Round negotiations, and it has only gained in importance in the Doha Round. The rise in competition from South American exporting countries, and the certainty that it will increase over the next several decades, make aggressive opening of major developing country markets in the Doha negotiations essential to our industry.

THE RISE IN SOUTH AMERICAN COMPETITION

Let me now briefly summarize the rise in soybean production and exports in Brazil and Argentina over the last 30 years, and particularly the factors responsible for the current rapid expansion in the central west region of Brazil. Until recently, the major production areas in these countries have been in northern Argentina and the southern Brazilian states of Parana and Rio Grande do Sul. It was in these states that Japan and other importing countries invested after the U.S. restricted soy exports to all destinations because of a supply shortage in 1973, and to the Soviet Union in 1980. After thirty years, the Brazilian south is considered fully developed, while expansion in northern Argentina is still possible, but limited in terms of suitable acreage. Also, the scale and costs of production in this area, including land values, are similar to those found in the U.S.

The situation is much different in the Central-West region of Brazil known as the Cerrados. This area of rolling scrubland comprises much of the states of Mato Grosso, Goias, and Mato Grosso do Sul and parts of neighboring states. The Economic Research Service (ERS) estimated in 2001 that Brazil had approximately 338 million acres in the Cerrados region available for land clearing and new crop production, an area one and one-third times larger than the total acreage devoted to row crop production in the United States.[1] In January 2003, USDA's Foreign Agricultural Service reported that Brazil's potential to expand production through clearing of the Cerrados as well as the conversion of existing pastureland had been underestimated. FAS conservatively estimates that Brazil could increase its total cul-

[1] Agriculture in Brazil and Argentina: Developments and Prospects for Major Field Crops; Economic Research Service, USDA; November 2001.

tivated area by 420 million acres or more if key legal, technical, and financial developments occur.[2]

However, unlike the southern region, which is near Atlantic ports, the Cerrados is 1,000 miles by truck from ports in the south, and 600 miles by truck—plus 1,200 miles by barge and ship—from the Atlantic via the Amazon River. The remoteness of the area, and lack of a developed transportation infrastructure, made its emergence as an agricultural production center inconceivable until recently. As a result, land values are a fraction of those in the south, or in the U.S.

In the past decade, however, a combination of cheap land and labor, domestic and foreign investment, and development credits and incentives from the Brazilian government and foreign sources, has made the Cerrados the new frontier in global soybean production. Soybean acreage in Mato Grosso grew from 4.2 million acres in 1992 to 10.6 million acres in 2002, and soybean production more than tripled, from 148 to 470 million bushels. The bulk of the soybeans grown in the Cerrados are exported either as whole soybeans or as soybean meal and soybean oil.

Historically, the pattern of clearing and development of the Cerrados had been gradual, with harvested soybean acreage in Brazil increasing only 6% over ten years. Brazilian soy acreage expansion exhibited a saw-tooth pattern wherein Brazilian harvested acreage increased only gradually, climbing slightly for one to three years in response to market demands, followed by one or two years of declines in production as the increasing world demand for soybeans was temporarily satisfied. This saw-tooth pattern of marginally increasing harvested area changed starting in 1998/99, with Brazilian harvested acreage increasing a massive 12.35 million acres, or 40%, during the four-year period from 1998/99 to 2002/03.[3] It is interesting that this rapid expansion in production occurred in conjunction with the lowest international prices for soybeans in 30 years. The sharp and sustained devaluation of the Brazilian Real that started in 1999 surely has been a major factor driving the rapid expansion in Brazilian soybean acres in the face of historically low international prices. However, there may be other actions taken by the government of Brazil to stimulate expansion.

Trends indicate that the expansion of land clearing and agricultural production in the Cerrados is still accelerating. Many agricultural economists both in the U.S. and Brazil expect soy acreage in Brazil to total 94 million acres in ten years, which would greatly surpass current U.S. acreage of 72 million acres. Nor are soybeans the only crop facing expanding competition. Cotton production has nearly doubled over the past five years, while Brazilian corn production has increased by 23%. Local Brazilian officials also predict a major expansion in pork and poultry production, fed by the rapidly expanding soy and corn industries. Clearly, our industry and others that are dependent on export markets are facing a serious and growing challenge.

Nor is the challenge limited to traditional export markets. In 2000, Wilmington Bulk, a consortium of livestock companies in eastern North Carolina, imported several shipments of soybean meal pellets from Brazil. Last year, the consortium completed construction of a $12 million facility in the Port of Wilmington and imported 95,000 tons of soybean meal in September and October. For this year, Wilmington Bulk recently announced plans to import 70,000 tons of Brazilian soybean meal, 200,000 tons of Argentine corn, and 200,000 of feed wheat from the European Union. It also indicated it might import whole soybeans from Brazil.

FACTORS AFFECTING BRAZIL'S GROWTH

ASA is actively working to identify factors that are contributing to the current surge in Brazil's soybean production and exports. To the extent the causes are based on enhanced competitiveness due to lower land and labor costs or macroeconomic factors such as currency exchange rates, there may be few ways for us to respond. However, to the extent Brazilian farmers are receiving subsidized assistance from their federal or state governments, or from other sources, ASA believes such assistance needs to be investigated more closely by the U.S. government.

A number of factors clearly contribute to Brazil's enhanced competitiveness. I mentioned the considerably lower land values in the Cerrados—uncleared scrubland is currently selling for $100 to $200 per acre, compared to $1,500 per acre for farmland in southern Brazil and $2,000 and up for prime land in the U.S. Midwest. A related factor is the economy of scale that accompanies the large size of Cerrados farming operations. Farms in the 10 to 50 thousand acre range are not uncommon,

[2] Brazil: Future Agricultural Expansion Potential Underrated; Foreign Agricultural Service, USDA, January 2003.

[3] Foreign Agriculture Service, USDA, Production, Supply, and Distribution database.

and some operations include 100,000 acres or more. Farms of this size are manageable due to the inexpensive cost of labor. A Brazilian worker may make $10 per day, plus room and board. Cheap labor also reduces the cost of trucking soybeans from the Cerrados to port or river barge.

Another significant factor in Brazil's competitiveness is its sharply devalued currency. Since 1996, the Real has lost 64 percent of its value against the U.S. Dollar, and the Brazilian government has plans to devalue their currency even further. I should add that the devaluation of the Argentine peso since its link to the Dollar was ended two years ago has been even more severe. Currency exchange rates have an obvious impact on competitiveness.

There is no question that Brazil's national development plan includes substantial investment to develop the Cerrados' agricultural potential. This investment includes incentives for production, such as low interest loans for land purchases and clearing, subsidized government interest rates for equipment purchases, and favorable tax treatment. ASA is working to identify this network of subsidies to determine whether they are consistent with Brazil's WTO commitments, and how they can be addressed in the current Doha Round of trade negotiations.

In addition to direct government benefits to producers, major efforts are underway to develop the transportation infrastructure in Mato Grosso and other Brazilian states. There are several major road and rail projects either under construction or in the planning stage that would significantly reduce per-bushel freight costs for soybeans moving to export markets. We are also aware that substantial investment for transportation and processing facilities is coming from multinational companies involved in exporting Brazilian agricultural products.

A final factor benefiting the competitiveness of Brazil's farmers is their widespread and illegal use of RoundUp Ready biotech soybean technology. Brazil approved Monsanto's patent for RoundUp Ready soybeans in 1997. Shortly thereafter, a court upheld a complaint filed by environmental groups that insufficient data had been received regarding the potential impact of RoundUp Ready soybeans on the environment. As this case has continued unresolved, Brazilian farmers have pirated RoundUp Ready seed over the border from Argentina, where it comprises over 95 percent of production. Last year, the prevalence of RoundUp Ready soybeans in Brazil was estimated at 20 to 30 percent nationwide, including 70 to 90 percent in the southern production region. In addition to not paying the $9.30 to $15.50 per acre technology fee on patented Roundup Ready soybean seed that U.S. growers pay, Brazilian producers who are pirating Roundup Ready seeds benefit from the higher yields and reduced pesticide application costs associated with RoundUp Ready use, for a total ill-gotten benefit of approximately $20 per acre.

One potentially limiting factor in Brazil's soybean expansion is the rapid spread of Asian rust, a fungus that can devastate soybean yields. Rust arrived in Brazil from Africa several years ago, and had a significant impact in limited areas of the southern production region last year. This year, evidence of rust has been found in Mato Grosso, and even in a small area north of the Amazon River. It is estimated that Asian rust this year cost Brazilian farmers over $1.0 billion in spraying costs plus a reduction in production estimated at 3.0 million metric tons. This issue is of major interest to U.S. producers, not only as it affects Brazil, but as we consider the very real prospect of rust spreading to the U.S.—either by wind or via shipments of Brazilian soybeans. I will discuss the need to address this threat later in my statement.

RESPONSES NEEDED TO STRENGTHEN U.S. COMPETITIVENESS

ASA is very concerned by the challenge posed by the rapid growth of Brazilian soybean production and exports. In February, ASA led a delegation of growers, industry leaders, and Congressional staff to Brazil to examine the competitive threat posed by Brazil, and to formulate appropriate strategies. The following are some of our key recommendations:

- The United States has a distinct advantage over Brazil in transportation costs, and it is important that the United States do all it can to maintain and enhance this advantage. ERS estimated that in 1998 the weighted average cost per metric ton to export position from Center-West Brazil was three times higher than similar costs from the U.S. heartland.[4] However, Brazil is making major infrastructure improvements that are anticipated to significantly reduce transportation costs. Meanwhile, approximately 75% of U.S. soybeans and products are exported through the Port of New Orleans via the Mississippi waterway and its

[4] Agriculture in Brazil and Argentina: Developments and Prospects for Major Field Crops; Economic Research Service, USDA; November 2001.

tributaries. Locks and dams on the Mississippi and Illinois Rivers built after World War II are in desperate need of modernization and expansion to allow barges and tows to pass through efficiently. Legislation authorizing and appropriating funds for lock modernization and extensions on the Mississippi and Illinois waterways should be a key priority for the Administration and Congress.

- Another priority for Congress and the Administration should be increased soybean research funding. While U.S. soybean yields are stagnate or only very slowly improving, yields in Brazil, particularly in the Center-West, have improved rapidly through research undertaken by Brazil's government agricultural research agency EMBRAPA, as well as by private research organizations, and now surpass U.S. yields and protein levels. In 2002/03, the average U.S. soybean yield was 37.8 bushels per acre, compared to 42.1 bushels per acre in Brazil.[5] Increased U.S. federal soybean research funding is needed if U.S. soybean producers are to catch up with and keep pace with their Brazilian competitors.
- The competitive threat posed by Brazil is of concern not only to U.S. soybean farmers, but also other crop and livestock farmers including corn, cotton, pork, and poultry. The Government of Brazil has played a key role in the development of soybean and other agricultural production in the Cerrados region through a series of tax, investment, credit, transportation, research, and energy policies designed to facilitate clearing of the land, expansion of production, and the earning of foreign exchange through exports. Much more needs to be done by the U.S. Government to investigate the various policies and subsidies that are helping fuel the rapid expansion of crop and livestock production in Brazil. Congress, the Administration, U.S. trade negotiators, and the U.S. soy industry should use the results of this investigation to formulate appropriate policies, positions, and negotiating objectives.
- Weak or non-existent intellectual property protection and enforcement in Brazil also are benefiting Brazilian growers and hurting the competitiveness of U.S. soybean producers. The combination of Brazilian growers not paying royalties on pirated Roundup Ready seed, along with the economic benefits Brazilian growers receive from Roundup Ready technology, gives Brazilian growers an ill-gotten $0.41 to $0.95 per bushel ($15 to $35 per metric ton) competitive advantage over U.S. growers. The U.S. Government and companies holding technology patents should actively pursue all possible legal remedies to address this unlevel playing field.
- Protecting and enhancing U.S. domestic demand is key. Whether it be maintaining a healthy and competitive domestic livestock industry, increasing domestic use through a tax incentive that allows biodiesel to be used to help meet our nation's energy needs, or creating new soy uses, the U.S. must enhance demand where it has the greatest competitive advantage—in our home market.
- Increasing world demand through market access and income growth is a must. Clearly, U.S. soy producers will be better off if world demand for soy continues to grow and "soaks up" increased Brazilian production. The best way to secure worldwide income growth is through a comprehensive trade round that creates new market access opportunities. Importantly, any new global trade agreement must improve access not just in industrialized countries, but also in developing countries since these developing economies offer the greatest potential for demand and income growth.

ADDITIONAL ACTIONS ON INTELLECTUAL PROPERTY, TRADE, AND SOYBEAN RUST

With regard to the intellectual property rights issues involved with RoundUp Ready soybeans, ASA asked in a letter to the Commerce Department last December that Brazil's inaction in enforcing Monsanto's patent be identified as a major impediment to U.S. exports and domestic use of soybeans and soybean products in the Annual National Trade Estimates on Foreign Trade Barriers. The recently issued NTE Report cites Brazil for illegal production of RoundUp Ready soybeans, but does not suggest a negative impact on our industry. We also asked the U.S. Trade Representative's Office in February to identify Brazil as a Priority Foreign Country under the 1974 Trade Act, and to initiate a Section 301 investigation. While USTR's report cites various continuing intellectual property rights violations by Brazil, it does not mention RoundUp Ready soybeans or propose an investigation.

ASA commends and strongly supports Monsanto's actions to begin addressing widespread Brazilian piracy of RoundUp Ready soybeans through a system that col-

[5] Foreign Agriculture Service, USDA, Production, Supply, and Distribution database.

lects royalties on Brazilian soybean and soybean meal exports to countries where Monsanto has patent protection. ASA calls on U.S. and international soybean traders and processors to cooperate in implementing this system. Non-cooperation would perpetuate the competitive disadvantage U.S. growers and the entire U.S. soy industry face because of the ongoing theft of RoundUp Ready soybean technology by Brazilian farmers. In addition, traders and processors who do not cooperate will be abetting continued piracy of a patented product.

As I mentioned at the beginning of my statement, the U.S. soybean industry views the Doha Round of trade negotiations as a critical opportunity to significantly expand world trade in oilseeds and oilseed products by reducing tariffs and other barriers to market access. The prospect of Brazil bringing 20 to 30 million more acres into soybean production and export in the next decade means that we need to promote an equally substantial increase in global demand for protein and vegetable oil. The only such opportunity lies in raising the very low per capita consumption of protein and oil-based foods in highly populated countries in the developing world.

ASA has worked within the American Oilseed Coalition in identifying market access priorities for the Doha Round. Basically, we are asking. that higher tariffs be reduced more rapidly than lower tariffs, so that tariff levels at the end of the implementation period are harmonized. We have and will continue to make our support for this approach known to Administration negotiators. We encourage this Committee to also urge strong market access provisions in the agriculture negotiations.

In addition, we believe that producers in major exporting countries that compete with the United States, including Brazil and Argentina, must be subject to the same rules and disciplines that we are. We are very concerned by the proposed text governing modalities for the agriculture negotiations, developed by the chairman of the agriculture committee, that would essentially exempt self-declared developing countries from any restriction on subsidizing expansion of their production and marketing infrastructure. This exemption from domestic support reduction commitments would encompass investment and agricultural input subsidies, transportation subsidies, on-farm employment subsidies, and government assistance for marketing support, capacity building measures, and risk management programs. U.S. soybean producers are already facing cut-rate competition from South American exporters. The Doha negotiations must impose disciplines on these countries, not give them a blank check for further expansion.

Finally, Mr. Chairman, I would like to return to the issue of Asian soybean rust I mentioned earlier. ASA has met with officials at APHIS, which is responsible for preventing the introduction and spread of rust in the United States. They are actively monitoring the situation in Brazil and other countries in South America, and have developed a response plan to control any outbreak in the U.S. One major concern is the possibility that rust spores may to present in foreign material included in Brazilian soybean shipments. Our understanding is that spores can live on leaves and other plant material for several weeks. While there have been no imports of whole soybeans from South America to date, ASA had made clear to APHIS that any prospective shipment would be a serious concern.

CONCLUSION

In conclusion, Mr. Chairman, U.S. soybean producers are facing a significant challenge from South American farmers, particularly in Brazil. We believe the opportunity exists to address competitiveness issues both at home and abroad. We look forward to working closely with you and Members of the Committee to meet these challenges.

Thank you again for the opportunity to appear before you today. I will be happy to respond to any questions.

Senator COLEMAN. Before Mr. Casale begins, I would like just to welcome Minnesota Agriculture Commissioner Gene Hugoson, who is here, and his deputy, Perry Aasness. Commissioner and deputy, welcome. They are good friends and I am pleased to have them here today. Thank you.

Mr. Casale.

STATEMENT OF CARL CASALE, VICE PRESIDENT FOR NORTH AMERICAN AGRICULTURAL BUSINESS, MONSANTO COMPANY, ST. LOUIS, MO

Mr. CASALE. Thank you, Mr. Chairman. My name is Carl Casale, and I am vice president of Monsanto Company's North American business. And I appreciate the opportunity to meet with you today.

In the written testimony that I have submitted to your subcommittee, I have outlined the many benefits of biotechnology. I have also outlined in great detail the history of Monsanto's attempts since 1997, to gain regulatory approval on Roundup Ready soybeans in Brazil. Despite our repeated attempts to resolve the situation, the approval of Roundup Ready soybeans continues to be on hold, pending further court action.

We find ourselves in a situation that we did not choose nor create. However, Monsanto has decided to take action by implementing a plan to protect our intellectual property rights. We believe our strategy will be fair to American and Brazilian growers, is a reasonable system for the grain traders, is consistent with Brazilian law, and protects the value of our intellectual property.

Starting with this year's harvest in Brazil, we intend to implement a program that will allow us to obtain fair value for the use of our technology and at the same time will be fair to Brazilian growers. Our plan will allow the efficient export of Roundup Ready soybeans from Brazil by those who choose to execute an agreement acknowledging our intellectual property rights, and the terms of the agreement will provide fair compensation to Monsanto for the use of our technology.

The international grain exporters/importers involved in the transactions will secure this fee-bearing license from Monsanto if the beans they are shipping from Brazil include above threshold quantities of Roundup Ready soybeans.

There are many details yet to be worked out, which are the subject of ongoing conversations with exporters. We are absolutely committed to the development of a fair and efficient system of collecting licensing fees. However, our ability to protect our intellectual property rights and collect fees is not solely based upon this plan. There are other avenues that we will pursue if necessary.

Monsanto is also working with the rest of the industry to implement this program. And we are also communicating with the Government of Brazil.

The participation and support of the global grain trading companies is key to our success of the program as we try to address the issues of intellectual property protection and recovering value for our investment innovation. We have pledged to work in partnership with these grain traders and to make every effort possible to address their concerns about the program and its implementation. We are optimistic that jointly we can implement a system that begins to close the gap in the cost of technology between the United States and Brazil.

We do not believe that such a system will be perfect. We are starting from a situation, which is far from perfect.

We have also met with the American Soybean Association and other key stakeholders to outline our intentions, and we have found these groups to be supportive of our actions.

However, we need your assistance. Intellectual property rights must be at the heart of any new international and bilateral trade agreements. Not only should approval systems be based upon objective, sound science, rather than political pressure, but patents must also be made available and honored for biotechnology products.

Monsanto has spent billions of dollars on biotechnology research, and continues to spend over $1 million a day on new research. Monsanto cannot continue to commit resources at this level if we cannot be assured of intellectual property protection for our products.

My testimony today is focused on Monsanto's efforts to gain formal approval of Roundup Ready soybeans in Brazil. However, I will be doing a great disservice to American farmers if I create the impression that solving this single intellectual property rights enforcement issue will solve the global competitiveness issue.

I want you to know that Monsanto, as a U.S.-based company, strongly supports the conclusions drawn by others who have spoken before me today regarding the factors affecting greater global competitiveness. These factors include soybean quality issues, transportation issues, foreign exchange, land prices, and cost of production issues.

We also believe that the future success of the U.S. soybean industry will not solely be driven by low-cost commodity products, but increasingly by value-added products. We applaud the efforts of the United Soybean Board and their commitment to bringing those value added products to the American grower. That is why Monsanto has donated technology to both the USB's Better Bean Initiative and it is also a founding member of the Technology Utilization Center. This has helped to further USB's goal of developing a soybean with improved oils and protein for U.S. producers.

The failure of the Brazilian Government to protect intellectual property rights will create a major disadvantage for their country in the future. It will be impossible for Monsanto to contemplate bringing other biotechnology products to Brazil until intellectual property rights are respected and effectively enforced.

Brazil may miss a greater opportunity to participate in an innovative technology that can bring outstanding environmental, production and financial benefits to their growers and their country.

Intellectual property protection is important and not just for Monsanto, but for the millions of people around the world who can benefit from biotechnology.

Mr. Chairman, we look forward to working together with you, the members of this committee, USTR, USDA, and the American growers to help find solutions to the complex issues discussed during the committee hearings.

Thank you.

Senator COLEMAN. Thank you very, very much, Mr. Casale.

[The prepared statement of Mr. Casale follows:]

PREPARED STATEMENT OF CARL CASALE, VICE PRESIDENT, NORTH AMERICAN AGRICULTURAL BUSINESS, MONSANTO COMPANY, ST. LOUIS, MO

Mr. Chairman, Members of the Subcommittee, my name is Carl Casale and I am Vice President of the North American agricultural business for Monsanto Company. I appreciate this opportunity to meet with you today.

I would like to begin by giving you some background about our company and our business. At Monsanto, we are a company of nearly 14,000 people dedicated to making a positive difference in agriculture—one of the world's most important industries.

Our vision is—"abundant food and a healthy environment." We are working to deliver products and solutions that help to meet the world's growing food needs, while conserving natural resources and protecting the environment.

Monsanto has a long history of turning innovative science into successful, high-value products that improve the efficiency of crop and animal agriculture.

Biotechnology is an example of our commitment to agricultural innovation. We developed Roundup Ready seeds that have been genetically enhanced to provide herbicide tolerance thereby allowing Roundup herbicide to be applied directly over the top of the crop in the field. This provides outstanding weed control without damaging the crop.

We believe that biotechnology will be an important tool in helping to feed our planet's growing population.

In the last 60 years alone, the world's population has tripled from 2 billion to 6 billion. (Source: UN statistics) The United Nations estimates there will be another 2 billion people by the year 2020, most living in the world's poorest regions.

With more people in the world, we are going to have to find ways to provide more food. According to Nobel Laureate Norman Borlaug, "You've got two choices. Either you improve yields so that you can continue to produce the food that is needed on the soil that is well-adapted to agricultural production, or you'll be pushed into cutting down more forests."

We believe that biotechnology will be a crucial part of expanding agricultural productivity in the 21st century.

BIOTECH BENEFITS

We believe that innovations in biotechnology will make it possible for farmers to triple crop yields without requiring any additional farmland. Advances in insect and herbicide-resistant crops are already making it possible to reduce the use of chemical pesticides, which helps preserve soil and water resources. Future improvements will lead to crop varieties specially designed to grow in poor soil and difficult climatic conditions.

Through biotechnology, farmers will be able to produce this additional food in a more sustainable way. A recent study from the National Center for Food and Agriculture Policy showed that as a result of planting biotech crops in the United States in 2001, 46 million pounds fewer pesticides were applied by U.S. growers that year. This is a significant reduction in herbicide and pesticide use compared to conventional crops.

At Monsanto, our success is determined by the success of farmers. Through a combination of chemistry, seeds and traits, Monsanto provides farmers with the products and services they need to cost-effectively and sustainably produce the highest quality food, feed and fiber.

Farmers value our technology. In the United States this has translated into rapid and widespread adoption of many of our technologies. For example, Roundup Ready soybeans now account for approximately 80 percent of the planted soybean acres in the United States. Planting Roundup Ready soybeans means that a farmer can apply less herbicide, increase yields, lower costs, and have more time for other aspects of his farming operation.

Biotechnology can also contribute to the production of biofuels. Renewable energy means reduced dependence on foreign petroleum and a cleaner environment through reduced emissions. Corn grain and soybean oil are the primary feedstocks for ethanol and biodiesel, respectively. Biotechnology is an important tool for improving corn and soybean yields, helping to reduce production costs. Improvements in yield and production efficiency will help growers meet the processor demand for feedstocks as the use of biofuels increase.

Since 1996, a total of 30 countries around the world have approved our technology for import or planting as the demand for biotechnology and its many benefits grows.

MONSANTO INVESTMENT IN TECHNOLOGY

The challenges faced in the task of development and innovation are huge. It takes eight to ten years for a new product to be developed and approved. Monsanto has spent billions of dollars developing new products through the advancements of biotechnology that increase the productivity of farmers through improved crops.

Effective intellectual property protection is absolutely necessary for companies such as ours to continue to bring new innovation to growers.

As you are aware, our technology is being used illegally in Brazil and as a result, Brazilian growers are enjoying the advantages of the technology without paying for it. U.S. soybean growers are rightly concerned about this, and I can assure you that we at Monsanto are working hard to address this problem. Illegal use of the technology creates an unfair competitive advantage for Brazilian farmers and robs Monsanto of revenue that would be used for further technology investment.

It is estimated that Roundup Ready soybeans make up anywhere from 8 percent to 22 percent of the Brazil's total production. In the southern state of Rio Grande do Sul, officials in Brazil estimated that 70 percent of the 2002 soybean crop was biotech.

Of course, this will be the topic of much discussion today but before I talk about our concerns regarding intellectual property rights and protection, I would like to outline the challenges we have faced as we have attempted to commercialize Roundup Ready soybeans in Brazil.

If you have ever had the opportunity to travel to Brazil, you know that it is a large and agriculturally diverse country. Monsanto has conducted business in Brazil for 50 years. We produce and market Roundup herbicide and conventional soybean, corn and sorghum seeds there.

Monsanto is one of the leading companies in Brazil. While we are committed to our business there, our experience as we have attempted to commercialize our first biotechnology product has been a long and very frustrating story.

HISTORY OF ATTEMPTED APPROVAL

First, let me explain the Brazilian regulatory process and our efforts at gaining regulatory approval for Roundup Ready soybeans in Brazil. In 1995 the Brazilian Congress passed the Brazilian Biosafety Law and that same year President Cardoso issued an executive order establishing the Brazilian Biosafety Commission (CTNBio). CTNBio was given full responsibility for all matters pertaining to biotechnology, including product approvals, research permits, policy decisions and issuance of regulations and guidelines.

CTNBio is comprised of 18 representatives. Sixteen representatives come from various government Ministries, such as Agriculture, Health, Environment, Science and Technology, Foreign Affairs, and Justice. There is also one industry representative and one non-government organization representative. A second group of 18 people serve as alternates to the first group. While the Biosafety Law gives full authority for decision making to CTNBio, it also provides for specific reviews and approvals from one or more other Ministries if warranted by the specific product under consideration. Two Presidential "Provisional Measures," one in December 2000 under the Cordoza government and a second in February 2003 under the new Lula government, reaffirmed the authority of CTNBio to perform this function.

A company seeking approval for a research facility, a field trial or a product introduction in Brazil must make a submission to CTNBio following their guidelines. Review of the application for approval is conducted by CTNBio staff, members of the Commission, and in some cases, outside experts. A decision to approve, deny or seek more information is made by a vote of CTNBio at one of its meetings, which generally occur monthly. A specific finding of particular risk, such as environmental or human safety, could trigger a review by the appropriate Ministry. Seed varieties are registered and approved by the Agriculture Ministry following CTNBio's approval.

In Brazil, Monsanto gained approval to conduct a field test of Roundup Ready soybeans in February 1997. Based on the results of those studies, we applied for full approval. The application for approval contained a full environmental and human safety assessment based on Brazilian data and was comparable to submissions to U.S. regulatory agencies and to other countries that have approved the product.

The approval was granted by CTNBio in September 1998. Immediately, groups opposed to biotechnology filed a number of lawsuits, which challenged the authority of the government to grant approval. These lawsuits also alleged that the government should have followed a full Environmental License process. In 1999, a lower court issued an injunction suspending the CTNBio approval pending resolution of the case on the merits.

Appellate Court rulings in June and September of 2000 denied Monsanto's request to cancel the injunction.

In December 2000, then President Cardoso issued a Provisional Measure restating the Biosafety Commission's authority to approve products and reaffirming all past approvals. In mid 2001, the federal government asked for an expedited decision at the Appellate Court. In the fourth quarter of 2001, the president of the Appellate Court assigned the case to a panel of three judges for a final decision.

In February 2002, the lead judge of the Appellate Court issued an opinion stating that the law giving CTNBio authority to approve Roundup Ready soybeans was constitutional and voted to cancel the pending injunctions. To date, the remaining two judges of the Appellate Court panel have not yet issued their opinion, and the case remains unresolved.

Meanwhile the illegal use of Roundup Ready soybeans by Brazilian growers continues to grow at a steady rate.

Resolution of the judicial issues or action by the executive or legislative branches is necessary to enable Monsanto to implement a commercial plan that would ensure that Brazilian growers would pay a fair price for use of the technology. Based on actions taken by the Brazilian government in 2001 and 2002, and on the strong opinion issued by the lead appellate court judge in early 2002, Monsanto believed that the approval was imminent. Unfortunately, it has not materialized.

RECENT DEVELOPMENTS

In February 2003, the Brazilian government issued safety certificates to the Chinese government confirming the safety of Brazil's soybean exports. The Chinese had insisted on special safety certification in order to continue shipments of Brazilian soybeans to China. This was required because, although the Brazilians had not resolved the approval process in court, their growers continued to produce biotech soybeans. Both the Brazilian Ministers of Agriculture and Health have issued certificates for Roundup Ready soybeans, certifying they are safe for human and animal consumption.

More recently, the Brazilian government has acknowledged that Roundup Ready technology is being used illegally in Brazil. On March 26, 2003, President Lula issued a Provisional Measure that legalized the biotech soybean sales recently harvested from this growing season for sales as grain only for domestic uses or for exports. The Provisional Measure expires in March 2004. Brazilian growers are expected to comply with the current law for the 2003/4 growing season, which still does not permit the planting or commercialization of Roundup Ready soybeans.

The approval for the commercialization of Roundup Ready soybeans has been a very long process and one that may continue for a long time. Meanwhile, Monsanto has committed substantial resources of time and people in our attempts to work through the Brazilian process.

Throughout the process, Monsanto has taken action to try to prevent the illegal use of our technology in Brazil. For the past two years, we have conducted extensive advertising campaigns and educational programs to inform growers that the government has not approved the technology. At the same time, we have urged the government of Brazil to take action to stop illegal use.

Monsanto has decided to take action by implementing a plan to protect our intellectual property rights. We believe our strategy will be: fair to American and Brazilian growers, a reasonable system for the grain traders, consistent with Brazilian law and protective of the value of our Intellectual Property.

MONSANTO PROPOSAL

Starting with this year's harvest in Brazil, we intend to implement a program that will allow us to obtain fair value for the use of our technology in the future in Brazil and at the same time will be fair to Brazilian growers who want to use our technology. Our plan will allow the export of Roundup Ready soybeans from Brazil by those who choose to execute an agreement acknowledging our intellectual property rights; the terms of the agreement will provide fair compensation to Monsanto for the use of its technology.

The international grain exporters/importers involved in the transactions will secure this fee-bearing license from Monsanto if the beans they are shipping from Brazil include above threshold quantities of Roundup Ready soybeans. Traders who elect not to secure a license will be subject to enforcement actions. There are a myriad of procedures available to insure fair enforcement. International trade need not be halted or disrupted to institute this system.

Monsanto is communicating with the Government of Brazil about the program and we are working with global grain traders and the rest of the industry to refine and implement this program.

The participation and support of the global grain trading companies is key to the success of the program as we work to address the concerns of the American grower about this unfair situation that exists between them and the Brazilian growers who are not paying for the technology. We have pledged to work in partnership with these grain traders and to make every effort possible to address their concerns about the program and its implementation. We know how much the American grower is counting on all of us to work together to address this issue.

In addition, we have met with the American Soybean Association and other key U.S. stakeholders to outline our intentions, and we have found these groups to be supportive of these actions.

Our company is working hard both to be responsible stewards of our technology, and protect our intellectual property rights given the constraints we are operating under in Brazil.

NEED FOR INTELLECTUAL PROPERTY PROTECTION

Biotechnology in Brazil is a complex story with many facets. But we must address the very real need for adequate and effective protection of intellectual property with all of our trading partners.

Unfortunately, the situation that I have outlined today is not just isolated to Brazil. There are other countries around the world, such as China, that do not recognize intellectual property rights. This makes it very difficult for companies that are technology providers such as Monsanto to either successfully commercialize their products or to prevent the illegal use of their products in these countries.

In the near term, Monsanto needs help to alleviate the situation in Brazil. It is a very unfortunate problem that our company faces—our technology is being used by growers who are not paying for it. This puts our customers who pay for the technology at a disadvantage when they compete head-to-head with Brazilian growers in the international marketplace.

There is no doubt that intellectual property rights need to be addressed in the World Trade Organization (WTO) and other international and bilateral trade agreements. Patents must be made available for biotechnology products and these patents must be protected. In addition, product approval systems must be based on objective risk analysis and sound scientific principles, and should not be influenced by political pressures.

We at Monsanto are working hard to gain formal approval of Roundup Ready soybeans in Brazil. However, we will be doing a great disservice to American farmers if we create the impression that enforcing intellectual property rights will solve the global competitiveness issue. Even with the Brazilian government's approval, many of the problems and challenges presented here will remain. I want you to know that as a U.S. based company, Monsanto strongly supports the conclusions drawn by American Soybean Association about the factors affecting greater global competitiveness. These factors, which have been cited in a recent ASA white paper, include: transportation issues, foreign exchange, land prices, and cost of production issues.

We also agree that the future success of the soybean industry will not be driven by low-cost commodity products, but by value-added products, which was the top priority of the United Soybean Board/American Soybean Association Export Competitiveness Task Force.

We applaud the efforts of the United Soybean Board and their efforts to bring these value added products to the American grower. In fact, Monsanto has donated technology to both the USB's Better Bean Initiative and the Technology Utilization Center. This has helped to further the USB's goal of developing a soybean with improved oils and protein for U.S. producers.

The technology we have donated is also available to land grant universities and even our competitors. We do this because we believe in investing in countries where our intellectual property rights are respected. In addition, we believe these donations will help position American producers to take better advantage of new cutting-edge traits that deliver real-user benefits.

This willingness by the United States to accept biotechnology brings me to my next point: I believe the situation in Brazil will correct itself eventually.

SHORT-TERM ADVANTAGE—LONG-TERM DISADVANTAGE

The Brazilian growers that have free use of our technology may have a short-term advantage. However, in the long-term, failure by their government to recognize intellectual property rights will create a major disadvantage for them.

Why? Because it is impossible for Monsanto to contemplate bringing other biotechnology products to Brazil until intellectual property rights are respected and effectively enforced. Brazil may miss a greater opportunity to participate in an innovative technology that can bring outstanding environmental, production and financial benefits to their growers and their country.

Monsanto is currently researching a promising oilseed crop that could produce a vegetable oil enriched with Omega-3 fatty acids. An Omega-3 enriched oil could ultimately provide consumers with a new solution to fight heart disease.

This is but one example of how biotechnology can add value enhancements to crops—ultimately providing end-use consumers with healthier food solutions. But without protection for our intellectual property rights and support for the approval of our products in Brazil, Monsanto cannot continue to bring new biotechnology products to that country.

Unless Brazil changes its policy on biotechnology, I believe that the natural competitiveness in the marketplace will give the advantage to the American grower in the long run.

Brazil will miss not only the future promise of biotechnology that I spoke about earlier, but it will miss also the ability to remain competitive in the ever-changing global marketplace.

In the meantime, we at Monsanto, along with America's farmers, are looking to Congress for relief in critical matters that will ultimately determine the success of American farmers and our products in this global marketplace.

I spoke earlier about the promise of biotechnology. As we look to the future we see a world of possibilities about to open up:

- Higher-yielding corn, soybeans, canola, oilseed rape, wheat and cotton.
- Crops that can withstand dry conditions or cold temperatures.
- Corn that not only protects itself against European corn borers and rootworms, but also against wireworms and flea beetles.
- Cotton that will produce a novel protein that protects against a broad range of insects.

These are but a few of the innovative solutions to challenges facing agriculture today. Biotechnology can bring these new solutions to growers around the world. But we will not be able to bring these innovations forward without strong intellectual property protection.

It is absolutely necessary that intellectual property rights are protected in all world areas and that regulatory decisions are based on sound science. Intellectual property protection is important, not just for Monsanto, but for the millions of people around the world who can benefit from biotechnology. Any assistance this committee could lend to ensure that these goals are met would be very appreciated.

Mr. Chairman, we look forward to working together with you, the Members of this Committee, and the American growers to find solutions to the complex issues discussed during this committee hearing. Thank you for the opportunity to talk to you today about our company's experiences in Brazil.

ADDENDUM

BRAZIL ROUNDUP READY SOYBEAN APPROVAL TIMELINE:

- In Brazil, Monsanto gained approval to conduct a field test of Roundup Ready soybeans in February 1997. Based on the results of those studies, we applied for full approval. The application for approval contained a full environmental and human safety assessment based on Brazilian data and was comparable to submissions to U.S. regulatory agencies and to other countries that have approved the product.
- The approval was granted by the Brazilian Biosafety Commission (CTNBio) in September 1998. Immediately, groups opposed to biotechnology filed a number of lawsuits that challenged the government's authority to grant the approval. These lawsuits also alleged that the government should have followed a full Environmental License process. In 1999, a lower court issued an injunction suspending the CTNBio approval pending resolution of the case on the merits.
- Appellate Court rulings in June and September of 2000 denied Monsanto's request to cancel the injunction.
- In December 2000, then President Cordoza issued a Provisional Measure restating the Biosafety Commission's authority to approve products and reaffirming all past approvals. In mid 2001, the federal government asked for an expedited decision at the Appellate Court. In the fourth quarter of 2001, the president of the Appellate Court assigned the case to a panel of three judges for a final decision.
- In February 2002, the lead judge of the Appellate Court issued an opinion stating that the law giving CTNBio authority to approve Roundup Ready soybeans was constitutional and voted to cancel the pending injunctions. To date, the remaining two judges of the Appellate Court panel have not yet issued their opinion, and the case remains unresolved.

- In February 2003, the Brazilian government issued safety certificates to the Chinese government confirming the safety of Brazil's soybean exports. The Chinese had insisted on special safety certification in order to continue shipments of Brazilian soybeans to China. This was required because the Brazilians have not resolved the approval process in court, yet they continue to produce biotech soybeans. Both the Brazilian Ministers of Agriculture and Health have issued certificates for biotech soybeans, certifying that they are safe for human and animal consumption.
- On March 26, 2003, President Lula issued a Provisional Measure that legalized the biotech soybean sales recently harvested from this growing season for sales as grain only for domestic uses or for exports. The Provisional Measure expires in March 2004. Brazilian growers are expected to comply with the current law for the 2003/4 growing season, which still does not permit the planting or commercialization of Roundup Ready soybeans.

Senator COLEMAN. Mr. Greene.

STATEMENT OF ROBERT W. GREENE, CHAIRMAN, NATIONAL COTTON COUNCIL OF AMERICA, COURTLAND, AL

Mr. GREENE. Senator, thank you for holding these hearings today. I am Bobby Greene. I am a cotton-ginner from Courtland, Alabama, and I currently serve as Chairman of the National Cotton Council of America.

I appreciate the opportunity to present the views and recommendations of the U.S. cotton industry on the subject of trade in the Western Hemisphere.

In the last 2 years, total U.S. exports of cotton fiber have increased from 7 to 11 million bales, which counts for over 60 percent of the annual crop production. Exports have increased in part due to increased trade with our neighbors to the south. Unfortunately, cotton consumption by U.S. textile mills has dramatically declined because of significant increases in imports of cotton textile and apparel products from Asia, especially China and Vietnam.

The U.S. cotton industry believes that increased trade in the Western Hemisphere is one of the few options available to help the industry compete with the alarming increase in low cost imports from Asia. The National Cotton Council supported NAFTA, and today, Mexico is our largest export market for raw cotton, yarn, and fabric.

Regional trade arrangements with the Caribbean Basin and Andean countries have been somewhat beneficial to our industry.

I would like to summarize the cotton industry's recommendations about ways to enhance the benefits of increased trade to all regions.

First, negotiations designed to place disciplines on domestic agricultural policies should not be included in the hemispheric free trade negotiations. Negotiations on agricultural support programs are properly within the purview of the World Trade Organization's Doha Round.

Second, the United States must develop effective approaches to dissuade countries from using phytosanitary rules and other non-tariff barriers to restrict imports of agricultural commodities. The United States should also work to include science-based rules for trade and biotech products in every free trade agreement.

Third, no trade agreement will benefit U.S. farmers and workers if the participating countries do not abide by its terms. We are very concerned that adequate resources may not be available to successfully complete USTR's ambitious negotiating agenda, and ensure that existing agreements are vigorously enforced.

Finally, future free trade agreements in this hemisphere offer potential economic gains to the U.S. cotton and cotton textile industries if they include the following provisions: a consistent, workable rule-of-origin for cotton fiber and textile and apparel products that is no less restrictive than NAFTA rules of origin; effective rules to deal with intellectual property rights; no preferences for products assembled using components from non-participating countries; and, that preserves important aspects of trade preferences already established with NAFTA, Caribbean, and Andean countries.

Trading arrangements under NAFTA and CBTPA have created substantial two-way trade and textile and apparel that benefit the U.S. and its partners. But the volume of trade between the United States and South American countries is still relatively small. Future trade agreements should seek to expand trade in a manner that is beneficial to all participating countries by enabling them to compete with low-cost Asian goods.

However, there is also the prospect of significantly increased competition. For example, Brazil, which I recently visited, has tremendous potential to expand cotton production if they are able to successfully address constraints posed by the transportation infrastructure.

I want to make another point about Brazil. Brazil has filed a wide-ranging, comprehensive WTO complaint against the U.S. cotton program and by inference against all U.S. commodity programs. We will vigorously defend the cotton program and are confident that it does comply with our WTO obligations. We believe both countries would be better served to focus on mutual benefits that can be achieved through the successful conclusion of the FTAA and the Doha Round.

In closing, I want to stress the importance of USDA's export credit and promotion programs. We believe that more should be done to ensure competitive financing tools are available to U.S. exporters. The highly effective public/private partnership market development programs must be adequately funded as we work to develop stronger relations with our export customers.

Again, thank you for allowing me to present testimony today. I hope you and your colleagues will remain actively engaged in urging the administration to negotiate sound, mutually beneficial agreements, and to ensure that they are vigorously enforced. I would be pleased to respond to your questions at the appropriate time, sir.

Senator COLEMAN. Thank you very, very much, Mr. Greene.

[The prepared statement of Mr. Greene follows:]

PREPARED STATEMENT OF ROBERT W. GREENE, CHAIRMAN, NATIONAL COTTON COUNCIL OF AMERICA

Mr. Chairman, thank you for having this hearing today. My name is Bobby Greene. I am a cotton ginner from Courtland, Alabama, and currently serve as the Chairman of the National Cotton Council of America.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state.

Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Any review of the impact of international trade policy on cotton should be undertaken with the understanding that cotton is a raw, industrial product. The economics of cotton production are inextricably linked to textile policy and production, both in the United States and around the world.

Trade policy in the Western Hemisphere is of great importance to the U.S. cotton industry. In the last two years, U.S. cotton fiber exports have increased 57% from an annual average of 7 million bales to 11 million bales. This increase occurred mainly due to a dramatic drop in domestic production of cotton textiles together with benefits of increased trade in the Western Hemisphere. U.S. mill use of cotton has dropped by more than one-third from almost 11.4 million bales in 1997 to less than 7.5 in 2003. This loss was due in large measure to unfavorable exchange rates, illegal transshipments of textile products and the failure of the U.S government to implement WTO safeguards in a timely manner.

Mr. Chairman, the U.S. cotton industry believes that increased trade in the Western Hemisphere is one of the few options available to help combat the ever-rising tide of Asian apparel imports into the United States. With this conviction, the National Cotton Council supported the North American Free Trade Agreement—and that agreement has been beneficial to our sector. Mexico is the number one market for our raw cotton. In turn, Mexico ships almost 3 million bales of cotton textile products to the U.S. It is our hope that this favorable relationship will continue.

The cotton industry is following with interest the negotiations for a Central America Free Trade Agreement and is working to gain a better understanding of the economic impact it can expect from a Free Trade Agreement of the Americas (FTAA).

Likewise, regional preferential trading arrangements with the Caribbean Basin countries and the Andean countries are beneficial to the U.S. cotton industry, though less beneficial than they could have been with less liberal quotas for regional fabrics, especially in the Andean agreement.

Without question, the economic impact of trade in this hemisphere is far more significant to the United States than it was 20 years ago when so much of our focus was on Europe and Asia. The cotton industry welcomes a hemispheric focus to trade policy, but is concerned that further progress toward enhanced trade is being jeopardized.

I would like to quickly summarize the main areas of concern to the U.S. cotton industry and then explore some of these areas in greater detail.

- Negotiations designed to place disciplines on domestic agricultural programs should not be undertaken within a hemispheric free trade negotiation. Negotiations on agricultural support programs are properly within the purview of the agricultural negotiations being carried out in the World Trade Organization (WTO).
- The United States must develop effective approaches to dissuade countries from using phytosanitary rules to unfairly restrict imports of agricultural commodities.
- No trade agreement is worth the effort to achieve if the participating countries do not abide by its terms. With the tremendous range of negotiations currently being undertaken by the United States, we are very concerned that adequate attention and resources are not being devoted to compliance issues.
- Future free trade agreements in this hemisphere offer potential economic gains to the U.S. cotton and cotton textile industries, but any regional agreement must——
  - Contain a consistent, workable rule-of-origin for cotton fiber and textile and apparel products that is no less restrictive than NAFTA rules of origin for these products;
  - Include provisions that would establish effective rules to deal with intellectual property rights;
  - Disallow preferences for products made with components from non-participating countries; and

- Preserve important aspects of trade preferences already established with the Caribbean and Andean countries.

I will discuss three of these points in general before turning to a more detailed discussion of our negotiating objectives.

MULTILATERAL NEGOTIATIONS ON AGRICULTURAL PROGRAMS

Domestic agricultural policy should not be negotiated within the context of hemispheric free trade negotiations. The WTO negotiations are the correct and most effective forum in which to engage all countries of the world in agreements that improve disciplines governing world agricultural trade.

We are increasingly alarmed that several countries in South America are using every forum and every media outlet available to attack the United States' agricultural programs. These attacks are unwarranted and misguided. The United States drove the Uruguay Round Agricultural Agreement reform process. The United States has fully complied with its Uruguay Round commitments, including those applicable to the U.S. cotton program. It has steadily adhered to ambitious proposals for multilateral, broad-based reform in the Doha Round.

The United States has again proposed far-reaching, substantive reform for agricultural policy within the Doha Round trade negotiations. The WTO is the only proper forum for obtaining multilateral disciplines on agricultural programs. The United States will place its producers at an extreme disadvantage in world agricultural markets should it agree to changes in its domestic agricultural programs in order to secure free trade agreements in this hemisphere.

PHYTOSANITARY RULES

Increasingly, countries in this hemisphere and around the world appear to be using phytosanitary rules to restrict imports of agricultural commodities. The United States must address this tendency directly and with determination. It stretches the resources of individual commodity organizations to their limit and greatly distorts trade when new phytosanitary barriers are constantly being erected without justification. In this hemisphere, we have most recently noticed Brazil changing phytosanitary requirements in an unpredictable fashion, threatening U.S. exports to that country.

Instead of having to respond to each new rule or edict individually, the United States should reserve the right within trade agreements to broadly withdraw trade concessions when its trading partners begin erecting one barrier after another while citing unfounded phytosanitary concerns.

COMPLIANCE ISSUES

Mr. Chairman, the United States has embarked on an unprecedented number of trade negotiations, with countries within this hemisphere as well as on the bilateral and multilateral stage. We are concerned, however, that the resources being devoted to ensuring compliance with already negotiated agreements is woefully inadequate.

The U.S. cotton industry has worked for over a year with U.S. government officials to make China comply with the terms of the U.S.-China WTO accession agreement—but China stubbornly refuses to comply. U.S. trade officials acknowledge a clear violation of that agreement and WTO rules, in general, by China in its implementation of tariff rate quotas on agricultural imports. However, we have so far managed to achieve no modifications in China's policy. While refusing to open its own markets under terms of the accession agreement, China has increased its exports of textile products to the U.S. last year by more than 600% in eight product categories for which quotas were removed. Yet the U.S. has not exercised its right to curb this excessive market penetration by implementing safeguards, despite a request that was made by the American Textile Manufacturers Institute more than eight months ago.

We applaud the long-anticipated decision by the Administration to move forward with a WTO case against the European Union's rules prohibiting importation of biotech agricultural commodities. But, we are troubled that each of these decisions has been "long-anticipated." Every delay costs U.S. agriculture. If agriculture is to continue to support progressive trade policy as adopted by the Administration, we must be assured that our government will force our trading partners to adhere to their agreements.

The FTAA itself is a monumental undertaking involving dozens of countries and thousands of individual issues and decisions. In order to be successful, the United States must devote adequate resources to these negotiations. We call on Brazil to do likewise. The U.S. cotton industry is facing the most comprehensive, wide-ranging WTO challenge ever faced by U.S. agriculture in a case brought by Brazil against our agricultural programs that clearly comply with the Uruguay Round rules. We would urge Brazil to turn its focus and energy towards the tasks of co-chairing the FTAA negotiations, and working diligently on the ongoing round of WTO.

Mr. Chairman, we urge Congress to send the strongest possible message to the Administration that future trade agreements will not be ratified under Trade Promotion Authority until there is clear evidence that the U.S. is insisting on full compliance with existing agreements by our trading partners.

EXISTING PATTERNS OF TRADE

Trading arrangements under NAFTA and CBTPA have created substantial two-way trade in textiles and apparel. The U.S. exports about 4 million bale-equivalents of cotton textiles to NAFTA and CBI countries. At the same time, the U.S. imports more than 6 million bale-equivalents of cotton textile products from these countries. However, to date, trade between the U.S. and South American countries is still relatively small. Future trade agreements should seek to expand trade in a manner that can be beneficial to textile industries in the signatory countries while denying benefits to third countries.

Trade policy in the Western Hemisphere should be designed to enhance the ability of the textile industry to compete with the onslaught of textile products coming from Asia, in general, and China, in particular. Since 1999, the share of U.S. cotton textile imports supplied by Western Hemisphere countries has steadily declined while Asia's share has increased. The decline was quite pronounced in 2002 as textile imports from China surged more than 100%.

For the United States cotton and textile industries, enhanced trade within this hemisphere provides the greatest opportunity to produce apparel products that are competitive with Asian imports.

The one-way trade preferences currently being provided to Caribbean countries, and to a lesser extent the Andean countries, have been constructed to increase the competitiveness of U.S. textiles. These preferences have led to increased consumption of U.S. cotton and U.S. cotton textiles.

In general, trade preference legislation breaks down textile and apparel preferences into the following categories:

1. Apparel that is sewn or otherwise assembled in one of the beneficiary countries from fabric that is wholly formed in the United States from U.S. yarns (U.S. fabric); and

2. Apparel that is sewn or otherwise assembled and cut in one or more of the beneficiary countries or the United States from fabric that was wholly formed in the United States or one or more beneficiary countries from U.S. or beneficiary country yarns (regional fabric [1]).

The legislation places ceilings on trade preferences for the so-called regional fabrics. Only a certain quantity of apparel articles that are regionally produced may take advantage of the preference in any particular year. That amount tends to increase over time. The Trade Act of 2002 clarified that dyeing and finishing of U.S. fabric qualifying for these preferences must be done in the U.S.

With the final revisions made to these preferential arrangements in the Trade Act of 2002, the U.S. cotton and textile industries are fully committed to developing more trade with the Caribbean and Andean countries. It would be detrimental to those economies if a free trade arrangement with Central America or South America undermined the preferences already in place in this hemisphere.

The cotton industry, primarily through the efforts of Cotton Council International, has already sponsored several trade fairs in this hemisphere and aggressively promotes the sale of U.S. cotton in the Caribbean region and in Central and South America.

CENTRAL AMERICA FREE TRADE AGREEMENT

As noted above, the U.S. cotton industry must evaluate all possible trade agreements based on their likely impact on U.S. cotton producers and U.S. textile manufacturers. As this Committee evaluates the economic impact of a potential FTA with Central America, we urge you to be aware of the very strong economic link between the U.S. cotton production sector and the U.S. textile manufacturing sector.

[1] The Caribbean trade preference legislation provides this second category of preferences only for regional knits.

Cotton production in the five countries of the Central American Economic Integration System (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) was approximately 19,000 bales in 2002, while imports of cotton were 255,000 bales and total mill use of cotton was approximately 260,000 bales. Without question, a free trade agreement with Central America will provide opportunities for U.S. cotton fiber exports into the region as textile and apparel products produced in the region will be more competitive in the U.S. market.

However, that same opportunity could result in a negative impact on the U.S. textile sector unless effective rules-of-origin are in place. It is also important that a separate textile negotiating group be established with respect to the Central America FTA negotiation.

The NCC strongly urges that any FTA agreement with Central America contain rules-of-origin applicable to textiles that are no less restrictive than those in the North American Free Trade Agreement. Anything less will open the U.S. cotton and textile industries to unfair, unbridled competition from countries that will transship textile products through Central America in order to take advantage of quota-free, duty-free access to the U.S. This would have a detrimental economic impact on the United States.

A rule-of-origin based on NAFTA-type rules ensures that workers and companies in the United States and Central America are the beneficiaries of the agreement, not entities in third countries. With an effective rule-of-origin, the increased trade that occurs as tariffs are reduced and trade barriers removed will mean increased opportunities for workers and consumers in each trading area.

Mr. Chairman, we also strongly urge that there be no free rides in these negotiations. There should not be any tariff preference levels (TPLs) and other exceptions that undermine the basic rule-of-origin. An effective rule-of-origin will also include a short supply mechanism similar to that contained in the Caribbean Basin Trade Preferences Act. Effective short-supply provisions eliminate the need for any special treatment for products that are not produced in the free trade region.

Any free trade agreement must offer reciprocal market access for both parties. Reductions in tariffs for textiles and agricultural products must be reciprocal and concurrent so that no country gains an unfair advantage as the agreement is implemented.

Imports of cotton fiber into the United States are subject to a tariff rate quota within the context of the World Trade Organization. The North American Free Trade Agreement phased out non-tariff barriers to cotton imports from Mexico into the United States over a period of years. The Chile agreement, which we support, phased out U.S. tariff-rate quotas over a period of 12 years. As long as the agreement contains effective rules of origin, the cotton industry will continue to support similar phase outs of the cotton fiber tariff-rate quota. It is, however, important that effective safeguard provisions be in place.

The NCC strongly urges that the textile and apparel customs enforcement measures in the NAFTA and AGOA agreements be included in a Central America Free Trade Agreement. These measures include the use of production verification teams and the ability for U.S. Customs to inspect factories without prior notice and the development of tracking systems, including a certificate of origin. In addition, the textile customs measures should require annual plant visits, records audits, and yearly certification requirements.

The U.S. Customs Service should also be required to file annual reports with the Congress and the President detailing its efforts in Central America to ensure that textile and apparel rules-of-origin are enforced.

While free trade agreements tend to contain provisions to bar companies that break the rules, they usually do not include provisions to bar countries that do not enforce the rules. The NCC therefore urges the U.S. to insist upon provisions in an FTA that allow the U.S., upon consultations, to remove textiles and apparel from trade preferences in the event that the foreign government repeatedly fails to enforce the textile rules in the agreement.

Mr. Chairman, we also are concerned that many countries do not do an adequate job of enforcing intellectual property rights. Free trade agreements should contain provisions that would establish effective rules to deal with intellectual property violations, including those relating to designs, copyrights, trademarks and patterns. The U.S. textile industry estimates that over $100 million are lost each year due to the worldwide pirating of protected textile designs.

FREE TRADE NEGOTIATIONS WITH SOUTH AMERICA

Negotiations designed to lead to a Free Trade Agreement of the Americas would truly transform the economic structure of this hemisphere. Those negotiations offer growing markets in some areas and for some parts of our industry, but raise the prospect of significantly increased competition in others. The size and scope of the FTAA demand that each aspect of such an agreement be carefully considered. The National Cotton Council has requested that a separate negotiating group on textiles be established within the FTAA negotiations. We urgently renew that request. It is important to our industry that our negotiators consider the impact of textile negotiations in the FTAA on the overall U.S. cotton industry.

The National Cotton Council is working with a consultant to develop a thorough economic analysis of the impact on the U.S. cotton industry of an FTAA. That analysis is not complete but we will be happy to share it with the Committee when it is finalized. Also, we have joined with a coalition urging USDA to conduct a thorough analysis of potential impacts of an agreement to help guide negotiators.

SOUTH AMERICAN COTTON POTENTIAL

Before I discuss specific negotiating objectives with respect to the FTAA, I would like to emphasize the dramatic difference between the South American cotton and textile sector and that sector in Mexico, the Caribbean, Central America and the Andean countries. Of all of these groups, only Mexico could compete on a size basis with the cotton economies of Brazil, Argentina and, at times, Paraguay. Brazil is of particular significance.

There have been significant shifts in Brazil's cotton production during the past decade. Land has moved out of cotton in the traditional areas of the south and northeast and into cotton in the state of Mato Grosso. The climate is very favorable for cotton production, and land availability does not appear to be an issue. In fact, it has been estimated that there are 160 million acres of virgin grasslands that are suitable for crop production. An added incentive for Brazilian cotton production is that it provides a very good rotational crop with soybeans.

The expansion of cotton acreage in Mato Grosso came in response to the strong prices of the mid 1990's. As I learned in a recent visit to Brazil, current prices do not provide strong incentives for additional acres. However, if prices rise, Brazil has the potential to substantially increase cotton production.

I should add that increased production is not without its constraints and costs. Transportation infrastructure poses a considerable hindrance to future growth. New acres brought into crop production are further away from the source of demand and subsequently have greater transportation costs.

FTAA NEGOTIATING OBJECTIVES

Although NCC's study of the effects of an FTAA on the U.S. cotton industry is not yet complete, many of the same principal issues discussed above concerning a Central America Free Trade agreement are no less applicable to negotiations with South America. Reciprocal market access, effective rules-of-origin, no tariff preference levels, strong Customs enforcement provisions and effective rules to protect intellectual property remain the cotton industry's priorities.

Effective rules-of-origin are even more important with respect to free trade negotiations with South America. The Council continues to support rules-of-origin for cotton, cotton textiles and cotton textile products that are consistent across all free trade agreements, namely that the rule-of-origin be no less restrictive than that applicable to NAFTA. As stated above, anything less would open the U.S. cotton and textile industries to unfair, unbridled competition from countries that will transship textile products in order to take advantage of quota-free, duty-free access to the U.S.

It is also very important that there be no tariff preference levels (TPLs) and other exceptions that undermine the basic rule-of-origin. These exceptions cost U.S. jobs and they are completely out of context when we are discussing free trade arrangements with literally dozens of countries at the same time. These wide-open exceptions to the NAFTA rules of origin came into place ostensibly in recognition of the relatively limited scope of the three textile markets involved in the NAFTA negotiations—although we would not agree that these markets are limited in any way. Nevertheless, that same rationale simply does not hold in the context of a Free Trade Agreement for the Americas. Further, any rationale that might exist for tariff preference levels is undermined by the inclusion of a reasonable, workable short-supply provision, which we strongly support.

CREDIT AND OTHER ISSUES

Mr. Chairman, there are a few more general items I believe need to be discussed concerning cotton and textile trade in this hemisphere. An inability of potential customers to obtain credit is hampering the growth of U.S. exports of yarn and fabric.

We believe more needs to be done to ensure that competitive financing tools are available to U.S. exporters of yarn and fabric. Our industry supports——

- Broad financing initiatives for U.S. cotton and textiles that involve current, modified or new programs of the Export-Import Bank, Overseas Private Investment Corporation (OPIC) and similar institutions specifically to address export financing constraints faced by those products, including provisions for an asset-based revolving or open line of credit;
- A continuation, simplification (i.e., paperwork reduction) and strengthening of a GSM-102 program that includes U.S. origin cotton, cotton yarn and cotton fabric;
- An effective Supplier Credit Guarantee Program (SCGP) that includes U.S. cotton, cotton yarn and cotton fabrics, and that:
  - Provides for approval of a specific line of credit for customers;
  - Provides a minimum of 80 percent guarantee;
  - Extends the repayment term, where practicable, to 360 days; and
  - Liberalizes the grace period for payment before a customer is "blacklisted."

Without improvements in financing and credit, the intended objective of boosting trade between the U.S. and the countries of this hemisphere may not be realized and the expected economic benefits for all parties will be constrained.

Also, we would encourage future trade negotiations in the Western Hemisphere to address the need for rules regarding the science-based adoption of biotechnology.

While we encourage the Administration to seek positive trade agreements, particularly within this hemisphere, the damage that can be done to the U.S. economy by poorly negotiated agreements is substantial. The recently implemented trade arrangement with Jordan, for example, contained a significant loophole in rules of origin for textiles that should have been avoided.

Further, the continued strength of the U.S. dollar has taken a significant toll on U.S. agricultural trade in general, and the U.S. textile sector in particular. All trade initiatives undertaken by the Administration should take this economic reality into account. The impact of currency valuations on trade should not be under-estimated.

The U.S. is taking the position that domestic support reductions can only be achieved in the multilateral context through the WTO. However, one communication from the agricultural group cites as an objective to "identify other trade-distorting practices for agricultural products, including those that have an effect equivalent to agriculture export subsidies, and bring them under greater discipline."

Mr. Chairman, thank you for the opportunity to testify on the potential impacts on agriculture in the Western Hemisphere stemming from these various trade initiatives. These comments are, of necessity, brief and general, but they reflect the fact that the cotton and textile industries in the United States can both gain and lose markets through the negotiation of trade agreements. We urge you to continue to be aware of the very strong economic link between the U.S. cotton production sector and the U.S. textile-manufacturing sector as you pursue the economic interests of the United States in the Western Hemisphere.

Table 1. US Cotton Supply & Use
(Thousand 480 Lb. Bales)

Crop Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Production	18,793	13,918	16,968	17,188	20,303	17,209
Imports	13	439	97	16	21	50
Beginning Stocks	3,971	3,887	3,939	3,915	6,000	7,448
Total Supply	22,777	18,244	21,004	21,119	26,324	24,707
Mill Use	11,349	10,401	10,194	8,862	7,696	7,500
Exports	7,500	4,298	6,750	6,740	11,000	11,000
Total Use	18,849	14,699	16,944	15,602	18,696	18,500
Loss	41	-394	145	-483	180	7
Ending Stocks	3,887	3,939	3,915	6,000	7,448	6,200

Table 2. US Retail Cotton Consumption
(Thousand 480 Lb. Bales)

Calendar Year	1997	1998	1999	2000	2001	2002
US Mill Consumption	11,291	10,891	10,470	9,890	7,994	7,670
Textile Imports	10,500	12,493	13,982	15,711	15,650	17,663
Textile Exports	3,661	4,077	4,320	5,090	4,449	4,543
Net Retail Consumption	18,130	19,308	20,132	20,511	19,196	20,790

Table 3. US Cotton & Cotton Textile Trade with NAFTA
(Thousand 480 Lb. Bales)

Crop Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
US Raw Cotton Exports to						
Canada	288	281	245	322	403	327
Mexico	1,447	1,355	1,503	1,774	1,969	1,590
Total NAFTA	1,735	1,636	1,748	2,096	2,372	1,917

* Year-to-date as of May 8

Calendar Year	1997	1998	1999	2000	2001	2002
US Cotton Textile Exports to						
Canada	590	686	705	693	616	585
Mexico	965	1,274	1,732	2,008	1,605	1,463
Total NAFTA	1,555	1,960	2,437	2,700	2,221	2,048
US Cotton Textile Imports from						
Canada	318	429	531	565	527	578
Mexico	1,678	2,292	2,745	3,022	2,749	2,714
Total NAFTA	1,996	2,721	3,276	3,588	3,276	3,292

Table 4. US Cotton & Cotton Textile Trade with CBI
(Thousand 480 Lb. Bales)

Crop Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
US Raw Cotton Exports to						
CBI	267	205	156	168	176	130

* Year-to-date as of May 8

Calendar Year	1997	1998	1999	2000	2001	2002
US Cotton Textile Exports to						
CBI	1,372	1,489	1,413	1,879	1,785	2,156
US Cotton Textile Imports from						
CBI	1,906	2,278	2,669	2,935	2,872	3,067

Table 5. US Cotton & Cotton Textile Trade with South America
(Thousand 480 Lb. Bales)

Crop Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
US Raw Cotton Exports to						
Brazil	215	6	283	15	59	237
Colombia	114	69	116	117	158	142
Peru	105	57	59	104	133	143
Other	140	85	127	130	119	114
Total South America	574	217	585	366	468	636

* Year-to-date as of May 8

Calendar Year	1997	1998	1999	2000	2001	2002
US Cotton Textile Exports to						
Brazil	20	13	8	12	10	4
Colombia	37	35	31	39	25	29
Peru	4	3	3	3	2	2
Other	73	66	44	64	46	18
Total South America	133	117	87	117	82	53
US Cotton Textile Imports from						
Brazil	70	54	72	131	124	189
Colombia	56	64	85	92	85	94
Peru	49	54	76	95	87	93
Other	17	12	12	16	18	34
Total South America	192	185	245	334	314	410

Table 6. Brazil Cotton Supply & Use
(Thousand 480 Lb. Bales)

Crop Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Production	1,890	2,391	3,216	4,312	3,518	3,700
Imports	1,884	1,334	1,559	603	253	600
Beginning Stocks	1,490	1,713	1,741	2,393	2,968	2,315
Total Supply	5,264	5,438	6,516	7,308	6,739	6,615
Mill Use	3,626	3,774	4,236	4,200	3,950	3,800
Exports	0	23	12	315	674	600
Total Use	3,626	3,797	4,248	4,515	4,624	4,400
Loss	-75	-100	-125	-175	-200	-200
Ending Stocks	1,713	1,741	2,393	2,968	2,315	2,415

Table 7. US Raw Cotton Exports by Destination
(Thousand 480 Lb. Bales)

Rank	2000 Crop		2001 Crop		2002 Crop*	
1	Mexico	1,774	Mexico	1,969	Mexico	1,590
2	Turkey	610	Turkey	1,533	China	1,478
3	Indonesia	559	India	1,023	Turkey	1,004
4	Korea	487	Indonesia	957	Indonesia	632
5	India	367	Taiwan	813	Thailand	415
6	Taiwan	367	Thailand	699	Taiwan	400
7	Japan	357	Korea	607	Pakistan	338
8	Canada	322	Pakistan	492	Korea	333
9	Hong Kong	291	Japan	491	Canada	327
10	Thailand	238	Hong Kong	416	Japan	324
	China (**13**)	125	China (**13**)	236		
Total US Exports **		6,740		11,000		11,000
% of World Trade		25%		38%		37%

* Year-to-date as of May 8

** Total for 2002 crop as projected by USDA

Senator COLEMAN. Mr. Roney.

STATEMENT OF JACK RONEY, DIRECTOR OF ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE, ARLINGTON, VA

Mr. RONEY. Thank you, Mr. Chairman. I am Jack Roney, director of Economics and Policy Analysis for the American Sugar Alliance, the national coalition of growers, processors, and refiners of sugar beets, sugar cane, and corn for sweetener.

American sugar producers are efficient by world standards, with costs of production below the world average. We would welcome the opportunity to compete on a level playing field, free of all government intervention. For this reason, we have long endorsed the goal of genuine global free trade for sugar. Unfortunately, the world sugar market is highly distorted by a vast array of government subsidies and practices. It is so distorted that the so-called world market price for sugar has averaged barely half the world average cost of producing sugar for the past two decades.

The only way to achieve the goal of free trade in sugar is to address all these practices in all countries to a comprehensive, multilateral negotiations in the WTO. The distorted world sugar market cannot, however, be corrected through regional free trade agreements such as the FTAA or the CAFTA. FTAs mainly affect import tariffs, but not the other means of support within the region. How foolish it would be for us to reduce our import tariffs while foreign exporters are still subsidizing. FTAs leave distortions in the rest of the world untouched. FTAs leave the free trade area vulnerable to the harmful effects of subsidies outside the region, and eliminates the region's leverage to remove those foreign subsidies.

The administration has recognized some of these dangers, and wisely decided to reserve negotiation on domestic price supports for the WTO rather than address them in the FTAs. But all these subsidies and other trade distorting practices are closely interrelated. This is why all these practices must be addressed comprehensively and globally in the WTO, not piecemeal and regionally in the FTAs.

There is ample precedent just within the Western Hemisphere for excluding sugar from FTAs. Sugar was excluded from the U.S./Canada FTA. Sugar was excluded from the Mercosur agreement among Brazil, Argentina, Paraguay, and Uruguay. Sugar was excluded from Mexico's FTAs with other Latin countries, or access to Mexico is limited to only when Mexico needs foreign sugar. Sugar was excluded from Mexico's FTA with the European Union.

There is one exception. The only major FTA in which sugar was included is the U.S./Mexico portion of the NAFTA. The controversy surrounding the sugar and corn sweetener provisions of the NAFTA has been enormous and a severe strain on U.S./Mexico relations. This and compliance issues on other commodities have left many American farmers questioning the value of FTAs in which only U.S. concessions appear to be enforced.

The United States is already one of the world's largest sugar importers. All the sugar from 41 countries enters at the U.S. price, not the world dump market price. Under our WTO obligations, about two-thirds of our imports are already guaranteed to come from Western Hemisphere countries, virtually all duty free.

Forcing the United States to import more sugar than it needs, as an FTAA would do, would oversupply our market with disastrous effects for domestic producers and for foreign suppliers.

One, prices would fall, driving more American sugar farmers out of business. Nearly a third of all U.S. beet and cane mills have closed just since 1996.

Two, low prices would also cause forfeitures of sugar loans to the government, contrary to law. The Senate passed the sugar title of the 2002 farm bill by an overwhelming 71 to 29 margin. It directed USDA to operate U.S. sugar policy at no cost to the government by avoiding loan forfeitures.

Three, low U.S. sugar prices would harm the economies of the countries that normally export to the United States. These are predominantly Western Hemisphere developing countries.

The United States consumes about 10 million tons of sugar per year. Our imports of sugar from 41 quota-holding countries have averaged more than 1½ million tons in recent years. Sugar exports from all FTAA countries are over 15 million tons per year. That is 50 percent higher than U.S. total consumption.

By far the greatest danger is Brazil. Boosted by decades of cane ethanol subsidies, direct sugar producer subsidies in some areas, low labor and environmental standards, and strategic currency devaluations, Brazil has increased its sugar exports from less than 2 million tons a decade ago to a forecast 14 million tons next year. Simply by diverting sugar cane from its government managed fuel ethanol program to sugar production instead, Brazil could overrun the United States and virtually every other Western Hemisphere country under an FTAA that includes sugar.

In conclusion, Mr. Chairman, the U.S. sugar industry is efficient and competitive, and supports the goal of genuine global free trade in sugar. But we insist that the only way to achieve this goal is through the WTO. Inclusion of sugar in the FTAA would spell disaster for the great majority of sugar producers in the Western Hemisphere, aside from the subsidized producers of Brazil.

Thank you.

Senator COLEMAN. Thank you very much, Mr. Roney.

[The prepared statement of Mr. Roney follows:]

PREPARED STATEMENT OF JACK RONEY, DIRECTOR OF ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE

Chairman Coleman, Members of the Committee: Thank you for the opportunity to testify before you today on a matter of considerable concern to the U.S. sugar industry.

I am Jack Roney, Director of Economics and Policy Analysis for the American Sugar Alliance, the national coalition of growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweetener.

I would like to provide you some background on the U.S. and world sugar markets and describe the U.S. sugar industry's position on multilateral trade negotiations and on the proposed free trade agreements (FTAs) with other Western Hemisphere countries B the Free Trade Area of the Americas (FTAA) and the Central American Free Trade Agreement (CAFTA).

BACKGROUND ON U.S. AND WORLD SUGAR MARKETS, POLICIES

Before moving on to our trade policy recommendations, it is important to provide some background on the unique characteristics of the U.S. and world sugar market and policies.

Size and Competitiveness. Sugar is grown and processed in 16 states and 372,000 American jobs, in 42 states, are dependent, directly or indirectly, on the production of sugar and corn sweeteners. The industry generates an estimated $21.1 billion in economic activity annually.[1] A little more than half of domestic sugar production is from sugarbeets, the remainder from sugarcane. More than half our caloric sweetener consumption is in the form of corn sweeteners.

The United States is the world's fourth largest sugar-producing country, trailing only Brazil, India, and China. The European Union (EU), taken collectively, is second only to Brazil.

Despite large U.S. production, the United States' sugar market is one of the most open. The U.S. is consistently among the world's two or three largest sugar importers.

The Uruguay Round Agreement on Agriculture in 1995 required imports of only 3-5 percent of consumption. But the United States bound its sugar imports at a level several-fold higher—a minimum of 1.256 million short tons, or nearly 15 percent of consumption, essentially duty-free. The U.S. actually imported nearly twice the minimum in 1996 and 1997, and has imported at least the minimum each year since.

Moreover, the NAFTA requires the United States to import up to 276,000 additional short tons of Mexico's surplus production. Under both agreements, the U.S. must import this sugar whether the domestic market requires it or not.

All but two of the 41 countries supplying sugar to the United States are developing countries, many with fragile economies and democracies. These countries depend heavily on sales to the United States, at prevailing U.S. prices, to cover their costs of production and generate foreign exchange revenues. More than half of these 41 countries produce sugar at a higher cost than U.S. beet and cane sugar producers.

Despite some of the world's highest government-imposed costs for labor and environmental protections, U.S. sugar producers are among the world's most efficient. According to a study by LMC International, of England, and covering the 5-year period ending in 1998/99, American sugar producers rank 28th lowest in cost of production among 102 producing countries, most of which are developing countries.[2] According to LMC, more than half the world's sugar is produced at a higher cost per pound than in the United States.

U.S. beet producers are the second lowest cost beet sugar producers in the world. U.S. cane sugar producers are 26th lowest cost of 63 cane producing countries, virtually all of which are developing countries with dramatically lower labor and environmental costs. American corn sweetener producers are the world's lowest cost producers of corn sweetener.

LMC pointed out that the U.S. competitiveness ranking is all the more impressive for two reasons: First, most sugar-producing countries are developing-country cane producers, with much lower government-imposed labor and environmental protection costs than the United States'. Second, the strong value of the dollar. LMC noted that the dollar had soared about two-thirds in the past 20 years against the currencies of most other cane-producing countries.

World Dump Market. More than 120 countries produce sugar and the governments of all these countries intervene in their sugar markets and industries in some way, the result of which is artificially low world sugar prices. Examples abound. Brazil, the world biggest producer and exporter, built its sugar industry on two decades of fuel alcohol subsidies, which became sugar subsidies, whether the Brazilian cane was used for alcohol or sugar. Sugar markets in India and China, the second and third biggest producing countries, are carefully controlled by the government, and the market in Australia, the world's third leading sugar exporter, is managed by a state trading enterprise (STE).[3]

A recent study by LMC International focused on the trade distorting practices among 14 countries or regions that are among the world's top sugar producer and consumers. LMC documented that these practices are not only numerous, but that many do not fall within the traditional WTO disciplines for domestic supports, import tariffs and export subsidies. Many are indirect, or less transparent, subsidies and practices that are just as distorting, but have not heretofore been addressed in trade negotiations. *(Figure 2 summarizes LMC's most recent findings on direct and indirect subsidies in 14 countries/regions;[4] Figure 3 summarizes an earlier LMC study on trade-distorting practices among the major sugar producers of the FTAA region.[5])*

Producers in the EU, taken as a whole the second biggest producer and exporter, benefit from massive production and export subsidy programs. The Europeans are higher cost sugar producers than the United States, but they enjoy price supports that are 40 percent higher than U.S. levels—high enough to generate huge surpluses that are dumped on the world sugar market, for whatever price they will bring, through an elaborate system of export subsidies.

World trade in sugar has always been riddled with unfair trading practices. These distortions have led to a disconnect between the cost of production and the prices on the world sugar market, more aptly called a "dump market." Indeed, for the 16-year period of 1983/84 through 1998/99, the most recent period for which cost of production data are available, the world average cost of producing sugar was 16.3 cents, while the world dump market price averaged little more *half* that—just 9.5 cents per pound raw value.[2]

Furthermore, its dump nature makes sugar the world's most volatile commodity market. In the past 2½ decades, world sugar prices have soared above 60 cents per pound and plummeted below 3 cents per pound. Because it is a relatively thinly traded market, small shifts in supply or demand can cause huge changes in price. Suggestions by industrial sugar users and some foreign governments that world sugar trade should be opened ignore this pattern of almost universal market distortion. Even the trade laws of the United States were never meant to cope with such widespread unfairness in trade.

Sugar Unique among Agricultural Commodities. In addition to the highly residual and volatile nature of the world sugar price, there are a number of other factors that set sugar apart from other program commodities. These unique characteristics must be taken into account when considering domestic and trade policy options for sugar.

- *Grower/processor interdependence.* Grain, oilseed, and most other field-crop farmers harvest a product that can be sold for commercial use or stored. Sugarbeet and sugarcane farmers harvest a product that is highly perishable and of no commercial value until the sugar has been extracted. Farmers cannot, therefore, grow beets or cane unless they either own, or have contracted with, a processing plant. Likewise, processors cannot function economically unless they have an optimal supply of beets or cane. This interdependence leaves the sugar industry far less flexible in responding to changes in the price of sugar or of competing crops.
- *Multi-year investment.* The multimillion-dollar cost of constructing a beet or cane processing plant (approximately $300 million), the need for planting, culti-

vating, and harvesting machinery that is unique to sugar, and the practice of extracting several harvests from one planting of sugarcane, make beet or cane planting an expensive, multiyear investment. These huge, long-term investments further reduce the sugar industry's ability to make short-term adjustments to sudden economic changes in the marketplace.

- *High-value product.* While the gross returns per acre of beets or cane tend to be significantly higher than for other crops, critics often ignore the large investment associated with growing these crops. Compared with growing wheat, for example, USDA statistics reveal the total economic cost of growing cane is nearly seven times higher, and beet is more than five times higher. With the additional cost for processing the beets and cane, sugar is really more of a high-value product than a field crop.
- *Inability to hedge.* Program changes dating back to the 1996 Freedom to Farm Bill made American farmers more vulnerable to market swings and far more dependent on the marketplace. Growers of grains, oilseeds, cotton, and rice can reduce their vulnerability to market swings by hedging or forward contracting on a variety of futures markets for their commodities. There is no futures market for beets or cane. Farmers do not market their crop and cannot make or take delivery of beet or cane sugar. The hedging or forward contracting opportunities exist only for the processors—the sellers of the sugar derived from the beets and cane. These marketing limitations make beet and cane farmers more vulnerable than other farmers to price swings.
- *Lack of concentration.* World grain markets are overwhelmingly dominated by a small number of developed countries, but sugar exports are far more dispersed, and dominated by developing countries. This makes the playing field among major grain exporters comparatively level and trade policy reform relatively less complicated than for sugar.

  The world wheat and corn markets, for example, are heavily dominated by a handful of developed-country exporters—the United States, the European Union, Australia, and Canada are four of the top five exporters of each. The top five account for 96% of global corn exports and 91% of wheat exports.

  The top five sugar exporting countries, on the other hand, account for only two-thirds of global exports and three of these are developing countries. Even the top 19 sugar exporters account for only 85% of the market, and 16 of these are developing countries.
- *Developing-country dominance.* Developing countries account about three quarters of world's sugar production, exports, and imports. Developing countries were, however, not required to make any significant reforms in the Uruguay Round, were given an additional four years to make even those modest changes, and are demanding special treatment again in the Doha Round of the WTO.

U.S. SUGAR INDUSTRY'S FREE TRADE POSITION

Because of our competitiveness, the U.S. sugar industry endorses the goal of genuine, multilateral free trade in sugar. We have endorsed this goal since the onset of the Uruguay Round of the GATT in 1986. We are ready, willing, and able to compete with foreign farmers on a level playing field, free from all forms of government intervention in the marketplace.

In our view, when all governmental policy distortions have been removed, the world sugar price will finally rise to reflect the actual cost of producing sugar. Since our costs of production are below the world average, we will be able to compete, without the need for a U.S. sugar policy.

We cannot endorse free trade at any cost, nor do we endorse unilateral disarmament of U.S. agricultural polices. Progress toward free trade must be made on a fair, genuine, and comprehensive basis, through sector-specific negotiations. A comprehensive agreement needs to address the market distortions of all the producers and be implemented in a well coordinated and timely manner.

As long as foreign subsidies drive prices on the world market well below the global cost of production, the United States must retain some border control. U.S. sugar policy is a necessary response to the foreign predatory pricing practices that threaten the more efficient American sugar farmers.

Genuine liberalization of trade in sugar must address all market distortions and circumvention, not just import barriers. This will take some doing—the varieties of trade distortions are so widespread, so numerous, and so ingrained. Bilateral and regional trade agreements are able to address only a fraction of these policies, and, thus, cannot be an effective vehicle for reform of the world sugar market.

U.S. SUGAR INDUSTRY POSITION ON THE FTAA (AND THE CAFTA)

The U.S. sugar industry recommends that, within the framework of the FTAA, and the CAFTA, sugar be reserved for much needed, and more far reaching, disciplines in the multilateral, World Trade Organization (WTO) context.

We understand, from contact with the sugar industries of other FTAA countries, that a number of these countries are requesting that sugar not be included in the regional negotiations.

The following are the major reasons for, and advantages of, reserving sugar for WTO disciplines.

1. *FTAA countries already dominate U.S. sugar imports.* With regard to granting FTAA countries preferential access to the U.S. sugar market: We are already there. Forty-one countries share in the U.S. sugar import quota, with essentially duty-free access at the preferential U.S. price. Twenty-four of these 41 are FTAA countries. The FTAA countries, aside from the United States, produce 36 million tons of sugar per year, export over 15 million tons, and account for 64 percent of U.S. raw sugar imports, virtually all duty free (*Figure 1*). If Mexico were to supply its full 276,000 short tons, the FTAA-country share of U.S. imports surpasses 70 percent.

Furthermore, according to LMC statistics, most of the FTAA countries produce sugar at a higher cost per pound than the United States.[2] Twenty-four of the 34 FTAA countries import little, or no, sugar. American sugar producers feel strongly that their market is already more open than necessary to producers who are predominantly no more efficient, but are most probably subsidized in some significant manner.

2. *FTAA countries likely to be overrun with subsidized Brazilian sugar.* Since Brazil is the largest exporter in the world, and represents two-thirds of the economy of Latin America, an FTAA negotiation on sugar will be dominated by the impact of Brazil. Moreover, because of the threat of unfairly produced Brazilian sugar overrunning the Western Hemisphere, growers in all of the sugar-producing countries in the region are threatened by Brazilian market distortions in sugar. Finally, the size and complexity of the Brazilian sugar and alcohol program are such as to make this program very difficult to unwind.

During the latter half of the 1990's, a period when the world sugar price was dropping from 14 cents per pound to just 4 cents, Brazil doubled its sugar production and tripled its exports. It became, by far, the world's leading producer and exporter of sugar.

Brazil's sugar exports have skyrocketed in one decade from less than 2 million tons per year to a predicted 14 million tons this coming year.[6] No country has done more than Brazil to depress world sugar prices, harm sugar-exporting countries, and cause severe economic stress to developing countries dependent on sugar exports. No other country comes even close.

Brazil's sudden expansion had nothing to do with world sugar demand or prices. Brazil's sugar explosion, instead, was the result of decisions by the Brazilian government to reduce subsidies and prices for fuel alcohol (ethanol) produced from Brazilian sugarcane. Brazilian cane processors tend to base their decision on whether to produce ethanol or sugar mainly on ethanol price and subsidy levels. Less than half of Brazilian sugarcane is used to produce sugar. Roughly 60 percent of Brazilian cane goes to ethanol production.

Brazil's "Proalcool" program, established in 1975, subsidized the modification or construction of a massive network of cane mill/distilleries to produce ethanol and reduce Brazil's dependence on foreign oil. Consumer prices for ethanol were subsidized to encourage use. As a result, Brazilian sugarcane production shot up from less than 70 million tons in 1975 to more than 350 million tons in recent years. Studies have estimated the value of Brazil's ethanol subsidy at more than $3 billion per year.[7]

The existence of an enormous infrastructure of mills/distilleries, built with government subsidy, enables Brazil to switch easily between ethanol and sugar production, depending on oil prices and government decisions on how much ethanol to produce. The leap in Brazilian sugar production in the latter half of the 1990's, as world sugar prices were plummeting, was the direct result of government decisions to reduce ethanol subsidies and prices.

The ability to co-produce sugar within the government-subsidized infrastructure built for cane ethanol, provides a tremendous savings to the Brazilian sugar industry. LMC International estimates cost savings from co-production—from factors such as sugar house configuration (producing ethanol or sugar from the same mill), molasses by-product credits, extended milling seasons, and economies of scale—at “almost US$1 billion” per year.[4]

Brazil’s sugar-export explosion in the late 1990’s was also aided by a government decision during that period to reduce the value of the Brazilian currency by nearly 50 percent, artificially keeping Brazilian exports competitive.

Furthermore, Brazil’s sugar producers have benefited, directly or indirectly, from other government assistance, including:

- Debt reductions or cancellations for sugar/ethanol companies.
- Freight and other infrastructural subsidies for sugar, ethanol, and other products.
- Direct subsidies to growers in the Northeast region.
- Labor and environmental practices that are extremely low by most world standards.
- The U.S. Department of Labor and others have documented the widespread and deplorable use of child labor in the Brazilian sugarcane industry, despite Brazilian laws forbidding such practices.[8 9 10 11 12]

3. *Sugar is* not *included in most bilateral and regional agreements.* Because of the uniquely distorted nature of the world dump market for sugar and because of a wide range of border control issues, sugar has overwhelmingly been excluded from bilateral and regional free trade agreements. The Food and Agriculture Organization of the United Nations noted last year: “There are 124 regional trade agreements worldwide at this time, most of which substantially exclude sugar.”[13] Some examples:

- Sugar is excluded from the Mercosur agreement among major producers Argentina and Brazil, with Uruguay and Paraguay.
- Though Mexico reportedly has more bilateral and regional trade agreements than any other country, it has excluded sugar from virtually every one, including its recent agreement with the European Union, the world’s second largest exporter of sugar. In agreements where sugar is included, Mexico has committed only to import sugar from that country when Mexico needs the sugar.
- Sugar is excluded from the U.S.-Canada portion of the NAFTA, which defers to WTO disciplines instead.
- Sugar is excluded from the EU’s free trade agreement with South Africa, also a major sugar exporter.

NAFTA controversy. Sugar is included in the U.S.-Mexico portion of the North American Free Trade Agreement (NAFTA), but the sweetener provisions are embroiled in controversy. Mexico is blocking imports of U.S.-made corn sweeteners that compete with sugar in Mexico, and Mexico insists on accelerating the NAFTA schedule of its sugar access to the U.S.

In addition, we have experienced import leakage—of blended product from Canada and above-quota sugar from Mexico.

Our experience with Mexico in the NAFTA has left American sugar producers highly skeptical of the value and credibility of trade agreements, and more cautious about moving forward in bilateral, regional, or multilateral contexts. The NAFTA sugar dispute must be resolved before the United States contemplates new agreements.

“Substantially all” precedent. WTO rules provide that free trade agreements should cover not all, but rather “substantially all,” trade between participant countries. This provision has been invoked by the EU, Mexico, and other countries in the free trade agreements mentioned above that exclude sugar, or, in some cases, most agricultural products.

The U.S. sugar industry strongly believes that the “substantially all” provisions of the WTO should be a critical part of the U.S. negotiating position. Every country in the FTAA process wants to increase its exports to the U.S. But in the unique case of sugar, increased exports would come at the expense of other developing countries and at great cost to American sugar producers.

4. *Increased potential for import-quota circumvention.* In a world market so rife with government distortions of markets, the incentive to evade measures for limiting the harmful impact of such unfair trade practices is very high. Many of these evasive schemes depend on exporting dump market sugar to countries that do not produce much or any sugar, where processors blend this

dump market sugar with other products that are not subject to the measures that restrain unfair trade.

Bilateral and regional free trade agreements can make this problem worse, by multiplying the number of such "blending platforms" to include virtually all the countries in the agreement. This is especially a problem in the Americas, where so many developing partners are sugar producers.

These import-quota circumvention problems can be avoided by negotiating comprehensively, in the WTO. Or, the Executive Branch can try to address circumvention practices in regional and bilateral agreements, by explicitly and reliably preventing such schemes to avoid U.S. law.

5. *Danger to no-cost operation of U.S. sugar policy.* The U.S. sugar market does not require additional foreign sugar, through the FTAA or any other trade negotiation. Oversupply depressed U.S. prices to 22-year lows during much of 1999-2001 and contributed to the closure of almost a third of all U.S. beet and cane mills during 1996-2002.

The 2002 Farm Bill restored stability to the domestic market by reinstating the USDA's authority to impose domestic marketing allotments. The sugar title of that Bill, which the Senate passed by an overwhelming 71-29 margin, instructed USDA to operate U.S. sugar policy at no cost to U.S. taxpayers, by maintaining stable producer prices and avoiding sugar loan forfeitures.

But excessive imports would have either of the following consequences:

- Marketing allotments could be triggered off, negating USDA's ability to manage supplies, defend prices, and avoid loan forfeitures and substantial costs to the government.
- USDA would reduce U.S. producers' marketing allotments to the point where they would lose economies of scale, face higher unit costs, and would likely go out of business.

Neither outcome is acceptable. In either, or both, instances, the U.S. government faces high costs and American sugar farmers risk being put out of business to accommodate subsidized foreign producers.

SUMMARY AND CONCLUSION

As one of the world's largest importers of sugar, from a highly subsidized and distorted world market, the United States must be careful in approaching sugar trade negotiations, to ensure that commitments it makes in one region do not make achieving results in other regions difficult or impossible. This is why issues of market access and market distortions for sugar can only be dealt with in a comprehensive and effective way in the WTO, where the distorting policies of all sugar-producing countries are on the table.

The U.S. sugar industry strongly recommends that, within the framework of the FTAA, sugar be reserved for much needed, and more far reaching, disciplines in the multilateral, WTO context. To highlight the major reasons for this strategy:

- We are already there. FTAA countries already dominate to the U.S. sugar market—supplying upwards of 70 percent of U.S. sugar imports, at the preferential U.S. price, virtually all duty-free. We accept these imports, under international trade obligations, despite the fact that most of the 24 FTAA countries with shares of the U.S. import quota produce sugar at a higher cost than U.S. producers. The U.S. sugar market is not only the most open in the FTAA, but is already one of the most open in the world—the United States is consistently among the world's top three sugar importers.
- An FTAA that includes sugar would expose all Western Hemisphere countries to being overrun with subsidized exports from sugar-giant Brazil. Under an FTAA, the other 23 countries would likely lose their previously guaranteed share of the preferentially priced U.S. market to Brazil.
- There is ample precedent for excluding sugar. Sugar is unique among agricultural commodities, and for this reason has been excluded from most bilateral and regional trade agreements. The one exception is the U.S.-Mexico portion of the NAFTA, which is embroiled in controversy over disputed U.S.-Mexico sugar trade provisions.
- A regional trade agreement exposes countries within that area to unfair trade practices within the region, such as import-quota circumvention sugar-blending schemes, without addressing trade practices outside the free-trade area.

- The U.S. sugar market is currently in balance, but could be tipped back into another disastrous oversupply situation if additional imports are required.

RECOMMENDATION

The ASA urges FTAA, and CAFTA, countries to join together in the WTO negotiations and aggressively attack, on a worldwide basis, those government policies that have so grossly distorted world trade in sugar. Arrangements to liberalize sugar trade within the FTAA should be deferred until solid results are achieved in the WTO that will curb or eliminate such policies—above all, export subsidies and dumping—and restore health to the world sugar market. Given the widespread and complex policies affecting the world sugar market, the ASA believes that sector-specific negotiations, within the framework of WTO agricultural negotiations, are the only feasible way of accomplishing these goals.

Such a sector-specific approach would involve the following elements:

- Timely elimination of export subsidies;
- Inclusion of all trade-distorting governmental policies and practices, including indirect or non-transparent policies, affecting sugar in the negotiations;
- Negotiation of commitments to curb or eliminate such policies and practices, in particular those that facilitate and encourage dumping onto the world market;
- Agreement on a well-coordinated implementation schedule for these commitments, encompassing developing countries (which account for three-quarters of world sugar production, consumption, and trade), aimed at maximizing the positive impact on the world market; and
- Careful attention to the importance of existing preferential TRQ arrangements to many of the smaller, economically fragile developing countries, and to the impact of WTO reform on these countries.

The ASA believes that only through such comprehensive, global sector-specific negotiations can the causes of the gross distortions and pervasive dumping that have characterized the world sugar market be rooted out and a viable basis for liberalization of market access be established.

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Figure 1

FTAA Countries/Regions:
Sugar Production and Exports, 2000/01 - 2002/03 Average, and
Share of U.S. Raw Sugar Import Quota, 2001/02

Country	Production	Exports	U.S. TRQ Allocation
	-Metric Tons-		
Mexico	5,128,000	246,000	7,258
Canada	94,000	5,000	---
Caribbean[1]			
Barbados	60,000	54,000	7,371
Dominican Republic	470,000	185,000	185,335
Haiti	10,000	0	7,258
Jamaica	205,000	164,000	11,583
St.Kitts & Nevis	22,000	17,000	7,258
Trinidad & Tobago	97,000	70,000	7,371
Central America			
Costa Rica	390,000	174,000	15,796
El Salvador	479,000	261,000	27,379
Guatemala	1,777,000	1,270,000	50,546
Honduras	338,000	90,000	10,530
Nicaragua	364,000	218,000	22,114
CAFTA Total	**3,348,000**	**2,013,000**	**126,365**
Belize	120,000	100,000	11,583
Panama	165,000	56,000	30,538
South America			
Argentina	1,563,000	151,000	45,281
Bolivia	282,000	47,000	8,424
Brazil	20,083,000	10,800,000	152,691
Colombia	2,277,000	985,000	25,273
Ecuador	493,000	56,000	11,583
Guyana	287,000	259,000	12,636
Paraguay	109,000	21,000	7,258
Peru	813,000	40,000	43,175
Uruguay	10,000	16,000	7,258
FTAA Total[2]	**35,636,000**	**15,284,000**	**715,499**
% of U.S. TRQ			**64.0%**

1) Excludes Cuba.

2) Excludes United States.

Data Source: USDA/FAS, November 2002

Figure 2

Summary of Support for Sugar Industry in Selected Countries, 2002

	Australia	Brazil[3]	China[4,5]	Colombia	Cuba	EU[6,7]	Guatemala	India[8]	Japan	Mexico	Russia[12]	S. Africa	Thailand	Turkey
TRANSPARENT SUPPORT														
Domestic Market Controls														
Production Quotas						✓								✓
Guaranteed Support Prices			✓			✓		✓	✓				✓	✓
Supply Controls								✓						
Market Sharing/Sales Quotas				✓			✓			✓		✓	✓	
Import Controls														
Import Quota			✓								✓	✓		
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licences			✓										✓	✓
Quality Restrictions							✓		✓					
Export Support														
Export Subsidies				✓		✓		✓						✓
Single Desk Selling	✓			✓	✓							✓		
NON-TRANSPARENT SUPPORT														
Direct Financial Aid														
State Ownership					✓					✓				✓
Income Support	✓	✓				✓			✓				✓	
Debt Financing[1]	✓	✓								✓	✓	✓	✓	
Input Subsidies[2]								✓		✓	✓	✓	✓	✓
Indirect Long Term Support														
R&D Subsidies								✓				✓		✓
Efficiency Programs	✓													
Ethanol Programs/Subsidies		✓		✓		✓							✓	
Consumer Demand Support					✓					✓				✓
Average Production, 2000-02 (mmt, raw value)	4.9	19.3	7.9	2.3	3.8	18.0	1.8	19.9	0.8	5.1	1.7	2.7	5.8	2.3
Rank Among World Producers	8	2	4	13	9	3	16	1	24	7	18	11	6	12
Average Exports, 2000-02 (mmt, raw value)[9]	4.5	9.5	0.4	0.9	3.0	5.7	1.2	0.1	-	0.7	0.1	1.1	3.0	0.4
Rank Among World Exporters	3	1	15	8	4	2	6	42	-	9	33	7	5	13
Domestic Wholesale Sugar Price (cents/lb)[10]	13.5	8.1	16.9	21.1	0.1	30.4	18.0	12.7	65.4	25.6	16.5	17.3	11.8	27.9
Import Tariff Level (refined, a.v. or equivalent)[11]	0%	18%	75%	20%	10%	164%	20%	68%	71%	172%	50%	46%	96%	138%

Notes:

1. Includes low interest loans, interest rate subsidies, debt relief and debt rescheduling.
2. Includes crop pre-financing, irrigation provision, land maintenance and inventory financing.
3. Brazil provides direct subsidies (income support) to producers in the North/North East region only.
4. Chinese cane and beet prices are controlled at the provincial level.
5. State trading companies account for 70% of domestic sales in China.
6. The EU provides an income support subsidy to refiners of cane sugar.
7. The EU Commission provides directives on ethanol use, though these are not binding.
8. India provides a transport subsidy for exporters.
9. Japan is an importer of sugar only. It is the world's fourth largest importer of sugar, importing 1.6 million metric tons per annum on average between 2000 and 2002.
10. The Cuba wholesale price represents the heavily subsidised ration entitlement. All prices are for refined sugar.
11. Ad valorem equivalents are based on average world price for 1999/00 to 2001/02. At times of low world prices, the EU also applies a safeguard duty in addition to the specific tariff.
12. The Import tariff level quoted for Russia is the out-of-quota tariff for the period July-Dec 2002.

Figure 3

Summary Table 2: Government Intervention and Marketing

Country	Extent of government control over:			
	Production	Marketing	Trade	Prices[1]
Argentina	No government control since 1991.	No government control since 1991. Marketing is controlled by individual mills.	20% tax plus variable duty on sugar imports. *WTO bound tariff rate: 38% (raw & white), effective by 2004/05*	No government control since 1991. Retail prices (1997): 27.1 US¢/lb (plant. white) 28.3 US¢/lb (refined)
Brazil	Government sets annual production plan for sugar and ethanol, and assigns mill-by-mill quotas to fill this plan.	No government control since 1990, when the Sugar and Alcohol Institute (IAA) was abolished. Marketing is controlled by individual mills.	Government sets export quotas; any sugar exported out of quota is subject to export tax. *WTO commitments, effective by 2004/05* *-bound tariff rate: 35% (raw & white)* *-subsidized export volume, max.: ca. 1.50 mn mt*	No government control of sugar prices since 1990 (IAA abolished); however, government will control ethanol price until October 1998. Retail prices (1997): 23.2 US¢/lb (plant. white) 27.2 US¢/lb (refined or *amorfo*)
Chile	No government control.	No government control. Marketing controlled by the single producer, IANSA.	Price band system of sugar import tariffs, additional to basic rate of 11%. *WTO bound tariff rate: 31.5% (raw & white), effective by 2004/05*	No government control. Retail price (1997): 28.5 US¢/lb (refined)
Colombia	No government control.	No government control. Domestic marketing is controlled by individual mills, while exports are handled by a single entity – CIAMSA.	Price band system of sugar import tariffs, additional to basic rate of 20%. *WTO commitments, effective by 2004/05:* *-bound tariff rate: 117% (raw & white)* *-subsidized export volume, max.: ca. 0.22 mn mt*	No government control. Retail prices (1997): 28.1 US¢/lb (plant. white) 29.7 US¢/lb (refined)
Cuba	Total government control of all aspects of production and processing.	A state-owned company, Cubazucar, is responsible for all domestic and export marketing.	All imports and exports are controlled by the state through Cubazucar. Import tariffs of 20% (raw) and 25% (white) *WTO bound tariff rate: 40% (raw & white), effective by 2004/05*	Government sets all domestic prices. Retail prices: plant. white only: 8.1 US¢/lb (ration card) 14.2 US¢/lb (free market estimate) *Note: Prices in US currency must be used advisedly, in view of the practical limitations of both the official and unofficial exchange rates.*

Summary Table 2 (continued): Government Intervention and Marketing

Country	Extent of government control over: Production	Marketing	Trade	Prices[1]
Dominican Republic	One state-owned milling company competes with two private producers.	Marketing is controlled by individual mills.	28% tariff on refined sugar imports. WTO commitments, effective by 2004/05: *-bound tariff rate: 40% (raw & white)* *-minimum access quota (20% tariff): 23,000 mt*	Government sets maximum prices for domestic retail sugar sales. Retail prices (1997): 27.0 US¢/lb (plant. white) 41.5 US¢/lb (refined)
Guatemala	Production is coordinated by a Sugar Board, which includes government representatives; the Board sets production targets and minimum cane prices.	No government control. Domestic marketing is controlled by a single organization, DAZGUA.	55% tariff on sugar imports. *WTO bound tariff rate: 160% (raw & white), effective by 2004/05*	No direct government control; however, the government has in the past taken action to prevent domestic prices from rising. Retail prices (1997): 28.5 US¢/lb (plant. white) 29.1 US¢/lb (refined) (LMC estimates, based on reported wholesale prices)
Mexico	No direct government control, though the government has in the past helped ailing mills.	No government control. Mills are responsible for marketing.	Import tariff of US$396/mt. Under NAFTA, a tariff rate quota must be in place by 2000. *WTO commitments, effective by 2004/05* *-bound tariff rate: 156% (raw & white)* *-minimum access quota: 184,000 mt* *-subsidized export volume, max.: 1.26 mn mt.*	No direct government control since 1996. Retail prices (1997): 31.8 US¢/lb (plant. white) 33.6 US¢/lb (refined)
Peru	Government is in the process of privatizing the cooperative sugar production system.	Marketing is controlled by individual mills.	17% tariff plus variable levy on sugar imports. *WTO bound tariff rate: 68% (raw & white), effective by 2004/05*	No government control. Retail price (1997): 27.6 US¢/lb (plant. white) (LMC estimate, based on reported wholesale price)
Venezuela	No government control since privatization in 1989.	No government control. Marketing is in the hands of individual mills.	Imports are generally duty free as Venezuela has free trade agreements with Colombia and Guatemala, its main sugar suppliers. *WTO bound tariff rate: 105% (raw & white), effective by 2004/05*	The government sets maximum levels for retail sugar prices. Retail price (1997): 28.6 US¢/lb (refined)

Note: 1. Most of these countries sell plantation white sugar at the retail level. Plantation white sugar, however, is not refined and so is not directly comparable to the refined white sugar sold in the US and nor are its prices.

SOURCE: *SUGAR INDUSTRIES AND GOVERNMENT POLICIES IN THE FREE TRADE AREA OF THE AMERICAS*

Senator COLEMAN. Mr. Boisen.

STATEMENT OF DOUG BOISEN, BOARD MEMBER, NEBRASKA CORN DEVELOPMENT, UTILIZATION AND MARKETING BOARD AND CHAIRMAN, NATIONAL CORN GROWERS ASSOCIATION TRADE TASK FORCE, MINDEN, NE

Mr. BOISEN. Good afternoon, Chairman Coleman. My name is Doug Boisen. I am a farmer from Nebraska. I am a member of the Nebraska Corn Board, and I am Chairman of the National Corn Growers Association Trade Task Force.

I would like to thank this subcommittee for giving me the opportunity to testify and to speak today regarding the future of the United States' economic relations in the Western Hemisphere. Today's hearing is very timely, and I commend the chairman and the subcommittee for convening it.

The National Corn Growers Association was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

One out of every five rows of corn in the United States is exported, and exports of value-added corn and co-products add to the importance of foreign markets for United States corn producers. In 2002, United States corn exports totaled 47 million metric tons with a value in excess of $4.8 billion. This represents approximately 20 percent of the total United States production, with the United States accounting for nearly 57 percent of the worldwide production last year. Our two closest competitors in the international marketplace are Argentina and China with 14 and 17 percent of world production respectively.

It is abundantly clear to me and to many of my fellow farmers that agriculture lives in a more competitive world than ever before. The importance of free trade agreements have never been more essential to the future success of our industry. NCGA supports trade agreements that will open markets for United States farmers and increase market development opportunities throughout the world. The Central and South American countries represent a large potential market for United States corn despite Argentina's presence in the region.

I would like to spend a few minutes outlining our trade priorities in ongoing and future trade negotiations in the region. Like many of the commodities at this table, corn is experiencing problems with Mexico in terms of its commitments under the North American Free Trade Agreement. Mexico is our second largest trading partner, importing 5.3 million metric tons of bulk corn last year.

It is essential that Congress and the administration not renegotiate NAFTA, and work toward its full implementation. Renegotiation of NAFTA would be unwise and unproductive for both countries.

At the center of attention of trade negotiations in the Western Hemisphere is the Free Trade Area of the Americas, FTAA. Through the FTAA process, corn growers seek the following objectives: One, overall reduction of tariff levels; two, elimination and use of export subsidies for trading in the Western Hemisphere; and three, the phasing out of tariff-rate quotas.

Specifically, the United States feed grain industry would benefit from the elimination or reduction of the complex system of preferential regional and bilateral trade agreements. This will increase access to more countries and provide exporters access to markets comparable to other trading partners.

Another top priority for corn growers is to prevent export subsidies from being used by any member. We seek a commitment from each country to refuse to accept subsidized exports from third parties. Export subsidies are the most trade distorting of government policies and severely injure efficient producers. Elimination and prohibition of future subsidies in the FTAA would not only level the playing field for agricultural commodities, but also increase pressure on the European Union to reform its export subsidies in upcoming WTO negotiations on agriculture.

Regarding a Central American Free Trade Agreement, the domestic feed grain industry looks to gain greater market access through the elimination of tariffs. In total, the region imports more than 1.6 million metric tons of corn per year, with the United States supplying nearly all of that demand. While each of the countries applies a different rate, tariff rate for corn, immediate tariff elimination should be sought in as many of these countries as possible.

In addition, we feel the FTAA in Central America should fully embrace trade in products produced through agricultural biotechnology. At a minimum, the United States should seek agreement from these countries that products of agricultural biotechnology be evaluated solely on the basis of sound science.

Free trade agreements and liberalization will help, but it will not solve all of our competitiveness problems in South America and around the world. Over the past 50 years, our inland waterway system has provided a comparative advantage that we have in moving commodities like corn to markets throughout the world from Minnesota and other Midwestern states.

Improvements in the United States waterways system are urgently needed. While we continue to study the issue, our competitors have invested in their transportation infrastructure and have captured market share at our expense. For example, during the last 9 years Argentina has invested $650 million to improve its inland waterway system. As a result, it has lowered its cost of shipping grain to global markets.

Brazil also is making similar progress. To their credit, the Brazilians are overcoming their transportation disadvantages by improving their inland waterway systems to a point where they are now the leading exporter of raw soybeans.

Modernizing the outmoded Upper Mississippi and Illinois lock system is absolutely necessary so agriculture and related industries can compete in the international marketplace.

In conclusion, our future as agricultural producers is linked to trade. The U.S. Government and organizations like NCGA need to promote the benefits of trade liberalization in multi and bilateral negotiations. We can not retreat from any region of the world, especially the one in our backyard.

We look forward to working with the subcommittee on this and other issues of importance in the future. And I thank you again for the opportunity to address the subcommittee.

Thank you.

Senator COLEMAN. Thank you very much, Mr. Boisen.

[The prepared statement of Mr. Boisen follows:]

PREPARED STATEMENT OF DOUG BOISEN, BOARD MEMBER, NEBRASKA CORN DEVELOPMENT, UTILIZATION AND MARKETING BOARD AND CHAIRMAN, NATIONAL CORN GROWERS ASSOCIATION TRADE TASK FORCE

Good afternoon. Chairman Coleman, Ranking Member Dodd and members of the Committee. My name is Doug Boisen. I am a board member of the Nebraska Corn Development, Utilization and Marketing Board and Chairman of the National Corn Growers Association Trade Task Force. I would like to thank the Subcommittee for giving me the opportunity to testify and speak today regarding the future of United States economic relations in the Western Hemisphere. Today's hearing is very timely, and I commend the Chairman and the Committee for convening it.

The National Corn Growers Association (NCGA) was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

NCGA's mission is to create and increase opportunities for corn growers in a changing world and to enhance corn's profitability and use. Trade is vital to the future of corn growers as we search for new markets and provide grain that is more abundant and of better quality.

One out of every five rows of United States corn is exported, and exports of value-added corn and co-products add to the importance of foreign markets for United States corn producers. In 2002, United States corn exports totaled 47 million metric tonnes with a value of $4.8 billion. This represents approximately 20 percent of total United States production, with the United States accounting for nearly 57 percent of worldwide production last year. Our two closest competitors in the international marketplace are Argentina and China with 14 and 17 percent of world production respectively. The United States Department of Agriculture (USDA) recently estimated United States corn exports would be down in the 2002/2003 marketing year at 1,675 million bushels, (42.6 million metric tonnes), the lowest export level since 1997/98. United States production will be at the lowest level of worldwide production since 1985 or even the late 1960s. This decrease represents the rising level of competition we are experiencing in the international market from countries like Argentina and China and decreased plantings due to weather related problems in the Western Corn Belt. The bottom line is that United States agriculture lives in a more competitive world than ever before. The importance of free trade agreements has never been more essential to the future success of our industry.

NCGA supports trade agreements that will open markets for United States farmers and increase market development opportunities throughout the world. The Central and South American countries represent a large potential market for United States corn despite Argentina's presence in the region. I would like to spend a few minutes outlining our trade priorities in ongoing and future trade negotiations in the region.

MEXICO

Like many of the commodities at this table, corn is experiencing problems with Mexico in terms of its commitments under the North American Free Trade Agreement (NAFTA). Mexico is our second largest trading partner, importing 5.3 million metric tonnes of bulk corn last year.

As you already know, on April 28, 2003, Mexican President Vicente Fox signed a "National Farm Accord" that pledges more domestic support to Mexican farmers and hints at preliminary steps to initiate safeguard actions on dry beans and white corn. In addition, the document alludes to the ultimate goal of unilaterally renegotiating the agriculture provisions of NAFTA by suspending the issuance of import permits (cupos) for white corn except in times of short supply and encourages the establishment of domestic production contracts to reduce dependence on United States yellow corn imports.

I do not intend to discuss our problems with Mexico at length. It is essential Congress and the Administration not renegotiate NAFTA and work towards its full implementation. Renegotiation of NAFTA would be unwise and unproductive for both countries. NAFTA is a working agreement that provides benefits to Mexico and the United States.

FREE TRADE AREA OF THE AMERICAS

At the center of attention of trade negotiations in the Western Hemisphere is the Free Area of the Americas (FTAA). Through the FTAA process, corn growers seek the following objectives: 1) overall reduction in tariff levels; 2) elimination of the use of export subsidies for trade in the Western hemisphere; 3) the phasing out of tariff-rate quotas; 4) fair administration of quotas and import permits; 5) eliminate other market access restrictions; 6) disciplines on State Trading Enterprises; 7) science-based regulations pertaining to human, animal and plant health and; 8) an expedited dispute settlement process.

Two of these objectives deserve special note. Specifically, the United States feed grain industry would benefit from increased access to the complex system of preferential regional and bilateral trade that has emerged in the Hemisphere. Tariff reduction, and ultimate elimination, would ensure that United States corn exports gain or retain access to markets on a basis comparable to that granted to other trading partners.

For example, duties between Mercosur countries are generally zero whereas members apply the common external tariff and statistical tax for imports from the United States (and other non-member countries). For example, Argentine enjoys a 2 percent tariff for corn exports to Brazil. The comparable rate for U.S. exports is 9.5 percent. While Brazil recently announced a tariff reduction for U.S. exports due to short supplies, it remains difficult for the United States to compete in that region for much of the year, despite some seasonal and freight advantages.

Bilateral Economic Complementary Agreements (ECA's) also work to our disadvantage. The ECA between Chile and Mercosur members subjects corn from Argentina to a lower import duty (1.8 percent in 2003) than the United States (6 percent in 2003).[1]

Such elimination of feed grain tariffs for our exports similar to those extended under regional and bilateral agreements would allow United States feed grains to compete in the Hemisphere under market conditions.

The "price band system" employed by Andean Pact countries continues to protect domestic agricultural products from imports. Under the Alidean Pact's common external tariff policies, corn imports from non-member countries are subject to a fixed tariff and a variable tariff based on import prices. The complex variable tariff component keeps internal prices high when world prices are low and declines as world prices increase, effectively setting a floor on the import price of third-country products. Overall feed grain demand is dampened as domestic markets are insulated at artificially high price levels, and as a result demand for imported feed grains is diminished. The use of price bands is inconsistent with WTO rules and should be eliminated as part of the FTAA agreement.

Another top priority for corn growers is to prevent export subsidies from being used by any member. We seek a commitment from each country to refuse to accept subsidized exports from third parties. Export subsidies are the most trade distorting of government policies and severely injure efficient producers. Elimination and prohibition of future subsidies in the FTAA will not only level the playing field for agricultural commodities but also will increase pressure on the European Union to reform its export subsidies in the WTO negotiations on agriculture.

CENTRAL AMERICA FREE TRADE AGREEMENT

Regarding a Central American Free Trade Agreement (CAFTA), the domestic feed grain industry looks to gain greater market access through the elimination of tariffs. In total, the region imports more than 1.6 million metric tonnes of corn per year, with the United States supplying nearly all of that demand. While each country applies a different tariff rate for corn, immediate tariff elimination should be sought in as many of these countries as possible.

In addition to tariff elimination, internal support measures employed by some Central American countries continue to hinder access for United States feed grains. El Salvador, Honduras and Nicaragua use commodity absorption agreements, which require domestic end users and processors to purchase a certain percentage of domestic production at high prices before being issued a license to import commodities. Typically, domestic production of white corn and sorghum must be purchased before import licenses are issued to import yellow corn at preferential tariffs. These mecha-

[1] Under the U.S.-Chile FTA, tariffs on corn exports drop to zero in the third year.

nisms are clearly illegal under WTO rules, and should be eliminated under an FTA agreement.

In addition, we feel the FTA with Central America should fully embrace trade in products produced through agricultural biotechnology. At a minimum, the United States should seek agreement from those countries that products of agricultural biotechnology be evaluated solely on the basis of sound science.

TRANSPORTATION MODERNIZATION

Free trade agreements and liberalization will help, but will not solve, our competitiveness problems in South America or around the world. Over the past 50 years, our inland waterway system has provided the comparative advantage we have in moving commodities like corn to market throughout the world from Minnesota and other Midwestern states. However, after five decades, our waterways are showing their age. Without additional investments in our transportation infrastructure, United States farmers are at a severe disadvantage as foreign countries increase their commitment to developing agricultural export markets.

The future financial success of corn growers throughout the nation is tied to the Mississippi and Illinois Rivers system. For this reason, infrastructure improvements that include new 1200-foot locks at seven locations are a top priority for our association.

Improvements in the United States waterways system are urgently needed. These aging 600-foot structures no longer can accommodate the volume of traffic or the current size of the typical 1100-foot tows now employed on the Upper Mississippi River. This results in long delays at older locks, averaging three to four hours. It has been estimated that the delay due to outdated, inefficient locks on the Upper Mississippi River costs approximately $900 per barge. If we are unable to move agricultural products in an efficient manner, the United States will become less and less competitive in export markets, and we will lose domestic markets as well. Eventually domestic agriculture will pay the price.

While we continue to study the issue, our competitors have invested in their transportation infrastructure and have captured market share at our expense. During the last nine years Argentina has invested $650 million to improve its inland waterway system. As a result, it has lowered the cost of shipping grain to global markets, it has created a state-of-the-art soybean crushing industry and is now the largest exporter of soybean meal. This has a direct affect on the ability of domestic soybean growers to compete in the international marketplace.

We would be lucky if it were only Argentina. Brazil also is making similar progress. To their credit, the Brazilians are overcoming their transportation disadvantages by improving their inland waterways to the point where they are now the leading exporter of raw soybeans.

Modernizing the outmoded Upper Mississippi/Illinois lock system is absolutely necessary so agriculture and related industries can compete in the international marketplace. Our nation wouldn't tolerate driving on two lane highways and roads littered with potholes. Nor can we accept an inland waterway system that is incapable of meeting the transportation needs of the new century. This investment will be a watershed achievement for agriculture and the nation as a whole over the next 50 years. We have a unique opportunity to make a needed investment in farm country and in the future well-being of domestic agriculture.

CONCLUSION

No doubt, our future as agricultural producers is linked to trade. The United States Government and organizations like NCGA need to promote the benefits of trade liberalization in multi and bilateral negotiations. We cannot retreat from any region of the world, especially the one in our own backyard.

We look forward to working with the Committee on this and other issues of importance in the future. I thank you again for the opportunity to address the Committee. I welcome your questions.

Senator COLEMAN. I should note my kind of a very uplifting sense, in spite of all the challenges that we are talking about today, this kind of consistent reiteration of, one, understanding that our future is linked to expanding markets, and a continued focus on phasing out of tariff rate quotas, elimination of export subsidies, overall reduction in tariffs, trying to move forward. And I would note a responsibility we have to meet the challenge of competition either through technology or through infrastructure.

And I would hope that my colleagues, when they read the record catch that, that we have some obligations of things that we have to do to simply allow Americans to do what they do best, which is to compete if given the opportunity.

Let me ask a series of questions and just kind of go down the list here. Mr. Ruth, you talked about or you mentioned in your testimony the issue of weak or nonexistent intellectual property protection. And you, I think, said the ASA calls upon traders to kind of cooperate, to kind of raise these issues.

I am interested in what the private sector, what you can do as an organization. Does the ASA play a role in discussing this with Monsanto, discuss this trade? What can you do to make sure that our folks are more attune to these issues and place a proper emphasis on them?

Mr. RUTH. I think producers are well aware of the problem with the Brazilian producers not paying the technology fees. And our growers have daily interaction with the grain traders as they sell their product. So it is important that they communicate through their grain traders that it is a continued problem that we need to address. Monsanto has presented a solution. While as Carl says, it is not perfect, it is a step in the right direction, and we need to make sure that they understand that American farmers support that.

We are not happy with the fact that Brazilian producers are not paying technology fees, and this is a step in the right direction to make certain that we do have a level playing field as far as technology.

Senator COLEMAN. Can you talk to me a little bit about some of the other competitive factors? It is clear that not paying the fee gives a competitive advantage. Are there other competitive factors that I need to understand, we need to understand? And then can you give me a sense of what should be done about them?

Mr. RUTH. Well, there is a whole series of competitive factors. As you are aware, American Soybean Association took some congressional staffers to Brazil back in February to try to get an understanding of what those factors are. Many of those are really difficult to get your hands around as far as some of the subsidies whether it is transportation subsidies, direct subsidies, subsidized financing. It is really hard to get solid sound answers to those questions. That is why we are calling upon Congress to investigate some of those further. There are numerous anecdotal evidence that these things are occurring.

One farm show we attended, we literally saw the signage on machinery advertising government subsidized loans at 8½ percent, and this is taking place in a country where inflation is at 12½ percent. And commercial loans are available in the 20 percent range. So those are definitely factors that lead to competitiveness advantages for the Brazilian producers.

Senator COLEMAN. All right. Thank you very much, Mr. Ruth.

Mr. Casale, I appreciate your emphasis on intellectual property rights must be at the heart of any trade agreements. And I know that our first panel understands that, and certainly we have been part of that discussion. I am interested in trying to—I understand the impact of the competitiveness issues we talked about here with Brazilian farmers and not having to have to pay some of these costs and the difference in price.

I guess the question I ask is: Looking at U.S. farmers, are they in a position where they are going to have to make up that cost? Are there any plans to increase the cost of Roundup Ready soybeans to U.S. farmers to make up for the difference? How do you handle that?

Mr. CASALE. Mr. Chairman, I answer that I guess on two different fronts. The first is Roundup Ready soybeans in the U.S. market up here and we view it as a total system cost which is the cost of the seed, the associated Roundup technology, and the Roundup supplied over the top. That system has been very competitive. It has trended down 3 to 5 percent perhaps this year, is what our early indication would be on a weighted average standpoint.

And our view is that over the long term, farmers that would practice no-till in this country because of the relative components of those, will continue to become more competitive. Conventional soybeans that do not utilize as much Roundup and take advantage of lower priced Roundup because the market has become more competitive over time are not going to benefit to the same extent as those other farmers.

A point I should make, though, is in terms of competitiveness, when we think about no-till as a key enabler of efficiency, Latin America has adopted no-till at a rate that is at about 2X what it is up here. So we think that that will help drive that up here over the longer term.

The other piece of this, I would say, is more of a macroeconomic issue, and it is what happens over the long term. We will continue to invest in new technology that makes farmers more productive. We will commercialize that technology in markets that respect, honor, and enforce intellectual property. That market has functioned very well up here.

Our belief is that over time those benefits are going to incrementally accrue to American farmers. We are working on two very new exciting pieces of technology in soybeans, for example. Omega three fatty acid, which, you know, the heart healthy benefits of that are widely known. We are working on altering the oil profile of soybeans to look more like an olive oil or monosaturated fat profile. It is not inconceivable that those benefits would accrue to farmers up here because of the way our IP system works.

Senator COLEMAN. And to make sure I understand you, for those countries that do not respect the property right, the patenting, the intellectual property rights, then those countries would not be eligible to participate, to partake of the benefits of the new technology. Is that correct?

Mr. CASALE. That is correct. It is a company that invests over $1 million a day. I mean, it is just economically rational. You are only going to take that technology to countries in which you can recover your investment.

Senator COLEMAN. Outstanding. And I do appreciate your comments about the kind of macro global competitiveness, also quality transportation, cost of production, everything else. And I think we have to take all those to heart. So I appreciate that. Thank you very much, Mr. Casale.

Mr. CASALE. Thank you, Mr. Chairman.

Senator COLEMAN. Mr. Greene, you talked about CAFTA and FTAA may provide U.S. textile industry an opportunity to compete with imports, and in fact, you said that is essential. Can you help me understand how the agreements benefit U.S. textile mills, and cotton farmers? I mean, specifically, where do you see the advantage there, and do your members understand that?

Mr. GREENE. I think they are understanding that. The cotton industry, for quite a while, has embraced free trade. And NAFTA is a good example of that, our support of NAFTA. And I think NAFTA can be used as a model for other agreements in many respects.

We do believe our future is in trade. I mean, we cannot consume all the cotton that is produced in the United States, with over 60 percent being exported. And we think that the Western Hemisphere is where that future lies. The Asians give us great concern, and so we think we should focus on the Western Hemisphere.

Senator COLEMAN. And yet I understand that you recently visited Brazil with the Industry Trade Delegation.

Mr. GREENE. Yes, sir.

Senator COLEMAN. Understanding this great potential in the Western Hemisphere which is our neighborhood, not our backyard, but our neighborhood and I think with great opportunity, can you talk about your impressions of Brazil's capacity to increase production in export and how that kind of fits into the overall vision?

Mr. GREENE. Well, at this point, the Brazilians are not large trading partners for cotton. Something less than 10 percent of what we trade with NAFTA is the number that we trade with the Brazilians. They do have just huge potential to expand their acreage. They have infrastructure issues that they have to cope with, but if they do deal with those positively, and I suspect they will over time, they will be a major player in the world cotton market.

Senator COLEMAN. And I am without another question, but a comment, in fact, I may ask one of the others about it, but I am just going to raise the issue about limited USTR resources. I mean, that has got to be a concern.

Where would you focus it, I mean, if you had your druthers? And maybe some of the others want to address this issue. These are big issues and big problems. I mean, if you ruled the universe there.

Mr. GREENE. Well, Mr. Chairman, you know, the Chinese—I will give you an example of where we are concerned about USTR, and trade with China is the issue. The Chinese agreed to certain concessions, about 3.75 million bales of open access cotton. And they have only exercised a very small fraction of that number. And we have addressed that issue with USTR, and they have heard us, and I understand that has been addressed with the Chinese. But nonetheless, at the same time when they have not allowed open access, they have flooded the U.S. markets with textiles, very, very low prices. We are very concerned with that.

Senator COLEMAN. Thank you very, very much, Mr. Greene.

Mr. Roney, you talked about the need for comprehensive multilateral WTO approach. And I have got to—I mean, you raised the issues of the impact upon the sugar program, you know, should FTAA have a disastrous impact. Jobs, produce income, do you have any figures on that?

Mr. RONEY. It is pretty hard to predict, Senator, what the impact would be, but from our experience in the late 1990s, 1999/2000, our market was oversupplied by really only a couple hundred thousand tons, and we had a drop in producer prices to a 22-year low. There was about a 30 percent drop in prices. Now that accelerated the level of bankruptcies that we are seeing in our industry, and so that we have lost about a third of our mills just over the last 6 years.

What we would anticipate if we were flooded with sugar from Brazil or other Western Hemisphere countries is that our price would collapse. It would most likely collapse through the world dump market price. And under that scenario, it is impossible to see how any U.S. producers could survive up against the heavily subsidized producers from abroad.

Senator COLEMAN. How do you propose to deal with these issues in the WTO? How do we do that in an equitable way?

Mr. RONEY. We want to work with the administration on that, Senator. We have supplied the administration with a study that we commissioned to help them understand the extent of global sugar subsidies. What we have noted is that many sugar subsidies fall outside the three traditional pillars that are normally disciplined in WTO negotiations—domestic supports import tariffs and export subsidies. And what we discovered is that there are a large number of indirect or non-transparent subsidies such as the cross subsidization of sugar that you see from ethanol in Brazil, from import and export state trading enterprises, from debt relief, from currency devaluations, from infrastructural programs.

And so, first of all, we are identifying those programs. And then we intend to try to work with the administration to find the most comprehensive, effective manner to address all of those. But I would emphasize again, Senator, that the only forum where we can do this is the WTO, and the FTAs are just not going to get there because they are aimed at only a couple of countries. We are not looking at domestic supports, and we are not looking at a myriad of trade distorting practices that we can only really tackle in the WTO.

Senator COLEMAN. Thank you very much, Mr. Roney.

And finally, Mr. Boisen, I appreciate your vision about the opportunities that trade presents. I wonder if I could kind of put some value on that. By increasing access to feed grains like corn in Central and South America, what would be the expected boost in sales to those countries? Is there any way to quantify that?

Mr. BOISEN. In Central America and northern South America, there would be some immediate advantages to reducing of tariffs and other trade barriers that are restricting to livestock production in those areas. As the tariffs came down, the price of the meat of livestock products came down. The demand would grow. We have virtually that whole market. And there is no reason to believe that we would not also continue to fill that market.

In Brazil, that is a little different story. The demand is there, but without tariff adjustments to Mercosur, we do not stand a chance of supplying Brazil any corn. Should those tariffs be adjusted, that might be a different story. And Brazil uses a fair amount of corn. In the last few years, they have used anywhere from a half-million tons up to almost 2 million metric tons.

Senator COLEMAN. Thank you. Our last question, what are the costs associated with not moving forward with FTAA and CAFTA negotiations?

Mr. BOISEN. We immediately lose any chance of a market share in a very competitive world market. We cannot afford not to move.

Senator COLEMAN. Thank you. Thank you. That is a good answer to end this panel on. I want to thank the panel very, very much.

And now I would like to invite the third and final panel to the table. From the great State of Minnesota, Mr. Jim Quackenbush from Chokio, vice president of National Pork Producers Council, a special welcome to you; Mr. Gregg Doud from Washington, DC, chief economist of the National Cattlemen's Beef Association; Mr. Andy LaVigne from Lakeland, Florida, executive vice president and CEO of Florida Citrus Mutual; and another fellow Minnesotan, Mr. Dave Frederickson, former Minnesota State Senator, and current president of the National Farmers Union, a special welcome to you, Mr. Frederickson; and Mr. Tom Suber from Arlington, Virginia, president of the U.S. Dairy Export Council.

We will start with you, Mr. Quackenbush. Please begin when ready.

STATEMENT OF JIM QUACKENBUSH, BOARD OF DIRECTORS, NATIONAL PORK PRODUCERS COUNCIL, CHOKIO, MN

Mr. QUACKENBUSH. Thank you, Senator.

I have farmed for the last 30 years with my father and two brothers producing pork, corn, soybeans, and wheat. I also serve on the Board of Directors of the National Pork Producers Council. However, in deference to my fellow Minnesotan, Don Buhl, who is the vice president of the National Pork Producers Council, that was a bit of a misquote. I do serve, however, as chairman of the Market Enhancement Committee, Competitive Markets Committee. So I want to clarify that.

I want to say at the start, as a teenager, I once asked my father why he chose to be a farmer, and he said with great pride and a considerable amount of emotion, that he realized that his generation for the first time in the history of the world had the opportunity to really do something about world hunger. Now we have heard a great many remarks here today about the business of exporting, the business of agriculture, and we are often told as farmers that we need to make our decisions based on a business decision and on sound economic principles. And many of my remarks today will focus on the business of pork production and protecting or expanding export markets. But to a great many farmers in this country, it is about much more than exports, and much more than business.

In 2002, U.S. pork exports set another record. Much of the growth in U.S. pork exports is directly attributable to new and expanded market access through recent trade agreements. However, as the benefits from the Uruguay Round and the North American Free Trade Agreement begin to diminish, the negotiation of new trade agreements becomes paramount to the continued growth and profitability of U.S. pork producers. While the WTO negotiations clearly offer the single largest opportunity to increase exports, the bilateral and regional negotiations also offer significant opportunity.

We support the negotiation of the Free Trade Agreement of the Americas, and I have provided specifics in my written statement.

While U.S. pork producers and others in U.S. agriculture have benefited significantly from past trade agreements, we must all remain vigilant in protecting the gains made in those past agreements. This is particularly the case when important large markets are at stake, such as Mexico, where the U.S. agriculture has invested huge amounts of time and money to succeed. Pork producers and our colleagues in American agriculture simply cannot stomach having these markets snatched away and still believe that trade agreements are of any value. It is that simple.

It is imperative that the United States act decisively to protect the gains made in past trade agreements in order to retain and shore up support in U.S. agriculture for new trade agreement initiatives.

In my written statement, I have provided you with comments about the illegal imposition of an antidumping order on U.S. live hogs. I want to discuss today Mexico's most recent actions with respect to U.S. pork which threatens the livelihoods of thousands of U.S. pork producers.

Senator COLEMAN. And, Mr. Quackenbush, we will enter your entire statement into the record.

Mr. QUACKENBUSH. Thank you. Mexico is principally using two illegal means to advance its protectionist agenda on pork. First, Mexico has illegally initiated an antidumping investigation against U.S. pork exports. Second, Mexico is illegally stopping U.S. pork exports at the border.

Like the United States and other countries, Mexico has the right to use its trade laws. However, Mexico does not have license to flaunt WTO rules and use its trade laws as a tool of protectionism.

The antidumping investigation that Mexico initiated against U.S. pork exports on January 7 is probably the greatest abuse ever of WTO antidumping rules. As underscored by the USTR in its discussions with Mexico, the case is illegally initiated and must be terminated.

In addition to the illegal initiation of that antidumping case against U.S. pork, Mexico continues to illegally stop U.S. pork at the border for alleged sanitary concerns. In December 2002, large quantities of U.S. pork were rejected at the border for unjustifiable sulfamethazine concerns, costing the U.S. pork industry millions of dollars in losses. Earlier this year, Mexico slowed U.S. pork exports by testing for copper and other metals. Most recently, Mexico has promulgated new regulations which are clearly intended to restrict U.S. pork, beef, and poultry exports to Mexico.

The stakes in Mexico are very high for U.S. pork producers. Any interruption of our pork exports to Mexico, whether through a trade case or through legislative or regulatory means, would be catastrophic for our industry. Mexico is the second largest export market for U.S. pork. In 2002, the U.S. exported to Mexico 217,909 metric tons of pork, valued at over $252 million. There is no good time to lose a major export market, but U.S. pork producers are particularly vulnerable at the present time.

The average U.S. pork producer has endured 18 straight months of losses. If the Mexicans place dumping duties on U.S. pork or take other action to restrict U.S. pork exports, U.S. hog prices will remain low and thousands of producers will potentially be forced out of business.

That ends my oral statement, and I thank you.

Senator COLEMAN. Thank you very, very much, Mr. Quackenbush.

[The prepared statement of Mr. Quackenbush follows:]

PREPARED STATEMENT OF JIM QUACKENBUSH, BOARD OF DIRECTORS, NATIONAL PORK PRODUCERS COUNCIL

I am Jim Quackenbush from Chokio, Minnesota. For the past 30 years I have farmed in a family operation with my father and two brothers producing pork, corn, soybeans, and wheat. I recently turned the operation over to my brothers and have started a consulting business assisting other pork producers in the areas of production management and business development. I also serve on the board of directors of the National Pork Producers Council (NPPC).

Mr. Chairman, I greatly appreciate everything that you and other members of this Subcommittee have done to advance U.S. agricultural exports. I strongly believe that the future of the U.S. pork industry, and the future livelihood of my family's operation, depend in large part on further trade agreements and continued trade expansion.

I once asked my father why he chose to be a farmer. He said with great pride and emotion that he wanted to be a part of ending world hunger. The experts today tell us to treat our farming operations as businesses and to make our decisions based on sound economic principles. Most of my remarks today will focus on the business of pork production and protecting or expanding markets. But to almost all of the farmers I know its about much more than business.

The National Pork Producers Council is a national association representing pork producers in 44 affiliated states that annually generate approximately $11 billion in farm gate sales. The U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than $64 billion annually in total economic activity. With 10,988,850 litters being fed out annually, U.S. pork producers consume 1.065 billion bushels of corn valued at $2.558 billion. Feed supplements and additives represent another $2.522 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice. Pork represents 47 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade—and the lower consumer prices in importing nations and the higher quality products associated with such trade—will depend substantially on continued agricultural trade liberalization.

PORK PRODUCERS ARE BENEFITING FROM TRADE

In 2002, U.S. pork exports set another export record totaling 726,484 metric tons (MT) valued at $1.504 billion. Exports to Japan, the largest market for U.S. pork exports, increased 5 percent to 271,129MT. Exports to Mexico, the second largest destination for U.S. pork, also continued to grow increasing by 7 percent from 2001 levels to 217,909MT.

Much of the growth in U.S. pork exports is directly attributable to new and expanded market access through recent trade agreements. However, as the benefits from the Uruguay Round and the North American Free Trade Agreement (NAFTA) begin to diminish, the negotiation of new trade agreements becomes paramount to the continued growth and profitability of U.S. pork producers. For this reason, NPPC led a coalition of more than 80 U.S. agriculture organizations in working to get Trade Promotion Authority through the U.S. Congress last year. On behalf of

U.S. pork producers, NPPC is now deeply involved in many trade initiatives, including the World Trade Organization (WTO) agriculture negotiations. The potential payoff to producers from a new WTO agriculture agreement is high. As good as the past trade agreement have been, global pork tariffs still average a whopping 77 percent.

Even in Japan—America's largest pork export market—U.S. pork exports are severely limited due to a gate price system and safeguards designed to protect Japanese producers. Moreover, the U.S. pork industry must compete globally with subsidized pork from the European Union and other countries.

In addition, NPPC continues to be active in bilateral and regional trade negotiations. While the WTO negotiations clearly offer the single largest opportunity to increase exports, the bilateral and regional negotiations also offer significant opportunity. We support the negotiation of the Free Trade Agreement of the Americas and I will provide additional comments regarding this important initiative later in my statement.

EXISTING TRADE AGREEMENTS MUST BE ENFORCED

While U.S. pork producers and others in U.S. agriculture have benefited significantly from past trade agreements, we must all remain vigilant in protecting the gains made in past trade agreements. This is particularly the case when important large markets are at stake, such as Mexico, where U.S. agriculture has invested huge amounts of time and money to succeed. Pork producers and our colleagues in American agriculture simply cannot stomach having these markets snatched away and still believe that trade agreements are of any value. It is that simple. It is imperative that the United States act decisively to protect the gains made in past trade agreements in order to retain and shore up support in U.S. agriculture for new trade agreement initiatives.

MEXICO IS UNILATERALLY RENEGOTIATING THE NAFTA

The Mexican government is unilaterally withdrawing concessions that it made to the United States in the NAFTA. Mexico is illegally using legislative and regulatory means including, the abuse of its antidumping laws and the abuse of its sanitary/inspection practices at the border, to restrict U.S. agriculture exports. While Mexico has utilized these illegal practices for a number of years, the illegal activities have reached a crescendo in recent months. Mexico's illegal tactics are impacting not only pork producers but a broad swath of American agriculture that includes apple producers, beef producers, corn producers and refiners, dry bean producers, and rice producers.

Just as the NAFTA envisioned for industries on both sides of the border, Mexico became the number one or two export market and a critical component of sales for many sectors of U.S. agriculture. Much of U.S. agriculture is now dependent upon the NAFTA to provide significant sales and generate revenues. With amazing aggression, the market access in Mexico on which we have become so dependent, has been, is being, or is now being threatened to be stripped away by actions by the government of Mexico. As a result, pork producers and many of our colleagues in U.S. agriculture believe the Mexico situation is the single most important trade and market access issue for the export-oriented agriculture community. In fact, it is hurting us more than any other single issue.

MEXICO IS ILLEGALLY BLOCKING THE EXPORT OF LIVE HOGS FROM THE UNITED STATES

On October 21, 1998, the Mexican government initiated an antidumping investigation of live hogs from the United States. On October 20, 1999, Mexico issued its final resolution and ruled that U.S. imports were being dumped at a rate amounting to 15.9 cents per pound (or 48.33 percent *ad valorem*) and that the U.S. imports were threatening injury to the Mexican hog industry. These duties have acted as a *de facto* embargo on U.S. lightweight hog exports to Mexico.

During the 1990s the U.S. pork industry began producing and processing increasingly heavier hogs. Most of these hogs were (and still are) raised in an "all in, all out" production system. While most of the hogs produced fall within the weight range demanded by packers, a small amount are "lightweights" and sell at about one-half of prevailing U.S. live hog prices. In the late 1990's pork industry participants in both the U.S. and Mexico realized the potential for the sale of lightweight U.S. hogs to Mexico because of the growing disparity in slaughter weights between the two countries. While in the United States, the average slaughter weight of a hog is 250 pounds, in Mexico the average slaughter weight is about 200 pounds.

Notwithstanding that Mexico is a hog deficit country and needs to import hogs in order to meet the demand of its consumers for pork, the Mexican hog producers brought an antidumping case against the U.S. hog exports. The law and the facts weighed strongly toward a finding of "no injury" to the Mexican hog producers but, the government of Mexico issued an antidumping order that completely halted the export of lightweight hogs from the U.S. to Mexico.

Mexico's decision violates the WTO Antidumping Code for a number of material reasons. First, the volume of U.S. hog exports to Mexico during the period of investigation was extremely non-injurious at less than one-half percent of total Mexican domestic consumption. Further, U.S. hog exports could not increase to injurious levels because, before and during the dumping case, the Mexican government maintained a ban on imported hogs that weighed greater than 110 kilograms (heavyweight hogs), which is substantially below the average weight of U.S.-produced hogs. Second, Mexico failed to collect and analyze crucial injury-related data for the Mexican hog industry.

The United States notified the WTO Secretariat that it intended to request a dispute settlement panel to review the legality of the Mexican government's decision. In September 2000 the United States and Mexico then engaged in mandatory consultations to determine whether a mutually satisfactory solution could be reached in lieu of litigation. As a result of these consultations, the Mexican government agreed to immediately initiate a Changed Circumstances Review of the antidumping duty order and to conduct the review in an expedited manner. The objective of this review was to lead to a termination or lowering of the duties. The Mexican government also lifted its ban on heavy-weight hogs at that time.

Unfortunately, the preliminary determination in the changed circumstances review was not reached until early summer of 2001. The preliminary determination left the same level of antidumping duties in place. Mexico told USTR during the WTO consultations in September 2000 that the changed circumstances review would be handled on an expedited basis. When USTR confronted Mexico about undue delay in summer 2001, *Mexico promised to have a final determination in the changed circumstances review completed by November 2001. Since that time USTR and USDA have repeatedly confronted Mexico about its failure to issue a final determination in the Changed Circumstances Review and terminate the antidumping order on U.S. hogs.*

As previously remarked, Mexico lifted its ban on the import of heavyweight hogs as a result of WTO consultations with the U.S. in September 2000. While Mexico will primarily be a market for the export of lightweight hogs, there is some demand for U.S. heavyweight hogs and some heavyweight U.S. hogs have been exported to Mexico since the ban was lifted. However, there have been numerous unfair sanitary/veterinary restrictions put in place designed to slow the export of U.S. heavyweight hogs such as having a veterinarian accompany each load of hogs from the border to the final destination.

MEXICO'S RECENT ACTIONS AGAINST U.S. PORK JEOPARDIZE THE LIVELIHOODS OF THOUSANDS OF U.S. PORK PRODUCERS

Mexico's most recent actions with respect to U.S. pork imperil the livelihoods of thousands of U.S. pork producers.

Mexico is principally using two illegal means to advance its protectionist agenda on pork. First, Mexico has illegally initiated an antidumping investigation against U.S. pork exports. Second, Mexico is illegally stopping U.S. pork exports at the border.

Mexico has been phasing-in its market access commitments on pork since the inception of the NAFTA. In January 2003 the implementation period for pork was scheduled to be completed. However, Mexican pork industry representatives have had success in lobbying the Mexican government for protection from U.S. pork exports. This is somewhat surprising given that there are only 4,475 commercial pork producers in Mexico.

As is widely known, beginning in the latter part of 2002, many of Mexico's agricultural organizations started to demand the renegotiation of the agricultural aspects of the NAFTA. At first, the Mexican government staunchly defended the NAFTA. However, the farm organizations threatened to hold massive demonstrations intended to close numerous border crossings and otherwise disrupt Mexican commerce. With the pressure in Mexico mounting, Mexico's Secretary of the Economy announced at a January 5 conference organized by Mexico's National Farm Workers Federation that aspects of the NAFTA that "need to be corrected, will be corrected." *On January 7 Mexico then initiated an AD case against U.S. pork.*

While Mexico has resisted a comprehensive renegotiation of the agriculture chapter of the NAFTA, Mexican officials have made it clear that they will "armor-plate"

Mexican agriculture by pro-actively using Mexico's trade laws and border practices to restrict pork and other U.S. agriculture exports to Mexico.

Like the U.S. and other countries, Mexico has a right to use its trade laws. However, Mexico does not have license to flaunt WTO rules and use its trade laws as a tool of protectionism. The antidumping investigation that Mexico initiated against U.S. pork exports on January 7 is probably the greatest abuse ever of WTO antidumping rules. As underscored by USTR in its discussions with Mexico, *the case is illegally initiated and must be terminated.* A preliminary determination in the case is expected on or before July 16 at which time provisional duties on U.S. pork exports could be put into place.

A number of points with respect to the illegality of the pork antidumping case. First, the Mexican association that requested the investigation, the CMP, does not represent the Mexican pork industry, and therefore, did not have any legal right to make the request. The producers of pork in Mexico, the slaughterhouses and the packers, have stated that they do not want the investigation to proceed and have asked that it be terminated. We understand that the U.S. government has refused to begin antidumping investigations of Mexican products under similar circumstances, and we do not understand why the U.S. pork industry is not being given reciprocal treatment here. Second, the CMP created the appearance that U.S. exporters are dumping pork in Mexico by comparing apples and oranges. The CMP compared prices for our sales to Mexico of fresh hams to prices for our sales to Japan of pork loins. Although any consumer knows that fresh hams have a lower price than tenderloins, the CMP nevertheless concluded that this comparison was proof that we were dumping pork in Mexico. Third, the CMP claimed that it was threatened with harm by imports of pork from the United States, but did not provide any proof about the financial condition of Mexican producers. The World Trade Organization already has found in other cases that each of these errors, taken alone, is sufficient to negate the entire case.

In addition to the fatal flaws I just mentioned, the dumping case is not based on present material injury but on a threat of future injury to the Mexican industry. This is extremely speculative. In fact, an injurious increase in exports of U.S. pork to Mexico is highly unlikely. The duty on U.S. pork last year was only 2%. The duty has steadily phased down over the past ten years and any future increase is expected to be incremental as in past years.

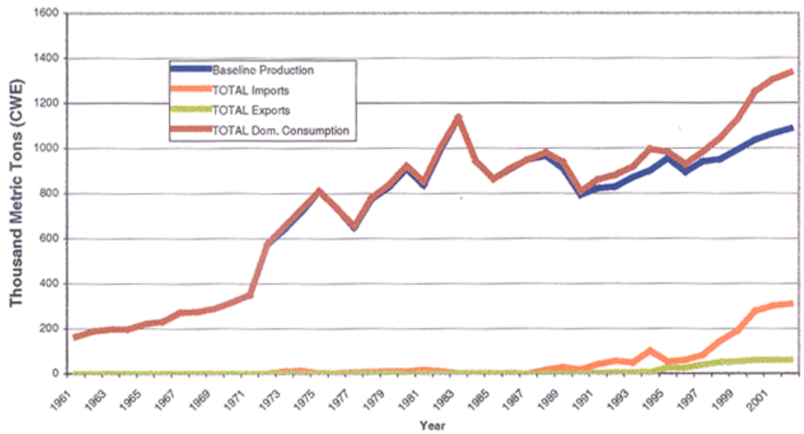
Moreover, the dumping case does not include Canada and Chile. In recent years these countries have increased their share of the Mexican pork market faster than the United States. Any restriction on U.S. pork exports will be offset by increased exports from Canada and Chile at the expense of Mexican producers.

In addition to the illegal initiation of an antidumping case against U.S. pork, Mexico continues to illegally stop U.S. pork at the border for alleged sanitary concerns. In December 2002, large quantities of U.S. pork were rejected at the border for unjustifiable sulfamethazine concerns costing the U.S. pork industry millions of dollars in losses. Earlier this year Mexico slowed U.S. pork exports by testing for copper and other metals. Most recently, Mexico has promulgated new regulations (NOM 6) which are clearly intended to restrict U.S. pork, beef, and poultry exports to Mexico.

The stakes in Mexico are very high for U.S. pork producers. Any interruption of our pork exports to Mexico, whether through a trade case or through legislative or regulatory means, would be catastrophic for the industry. Mexico is the second largest export market for the U.S. pork industry—in 2002 the U.S. exported to Mexico 217,909 metric tons of pork valued at $252 million. There is no good time to lose a major export market but U.S. pork producers are particularly vulnerable at the present time. *The average U.S. pork producer has endured 18 straight months of losses. If the Mexicans place dumping duties on U.S. pork or take other action to restrict U.S. pork exports, U.S. hog prices will remain low and thousands of producers will be forced out of business.*

The great irony here is that while the average U.S. pork producer has been losing money, the average Mexican pork producer has been very profitable. While pork production in the U.S. has been flat, pork production in Mexico has increased.

As detailed in the following chart, Mexican pork producers have captured about half of the increase in pork consumption in Mexico.



Source: USDA

Indeed, Mexican Pork Exports Have Doubled in Recent Years. While Mexican pork producers demand protection from free and open trade, they are a major beneficiary of such trade. As shown in the preceding chart, exports from Mexico of pork products have grown 1,100% since 1994. In response to pressure by the Mexican pork industry, the Fox Administration has made pork exports a centerpiece in the negotiation of a free trade agreement with Japan.

U.S. pork producers urge the U.S. Government to use all available means to get Mexico to refrain from its illegal actions against U.S. pork and to keep the Mexican market open to U.S. pork exports.

CHILE IS THE TEMPLATE FOR PORK IN THE FTAA

Negotiations for the United States-Chile Free Trade Agreement were recently completed. U.S. pork producers appreciate the outstanding results negotiated by U.S. trade officials on pork and pork products. Chilean tariffs on virtually all pork and pork product HS codes will be reduced immediately to zero upon entry into force of the agreement. Moreover, parallel discussions on sanitary issues were conducted with Chile in order to ensure that the U.S. pork industry receives real and meaningful access. Chile has published an equivalence rule which, if implemented, will authorize the importation of pork into Chile from all USDA-approved pork facilities. We understand that the comment period for the rule will soon expire. We hope that the rule will quickly be implemented.

VENEZUELA'S RESTRICTIVE IMPORT POLICIES MUST STOP

Pork producers applaud the Administration for initiating WTO consultations with Venezuela. Venezuela's failure to issue import permits to U.S. exporters of pork has been a major barrier to trade. Venezuela's SASA issues licenses sporadically, if at all, for pork. We understand that Venezuelan authorities go so far as to consult domestic pork producers prior to issuing these licenses. *If WTO consultations are not successful in persuading the Venezuelans to drop their restrictive import practices. the Administration should seek the establishment of a WTO dispute settlement panel.* It is important that this issue be resolved once and for all. Therefore, it might be useful to seek a dispute settlement panel even If Venezuela suddenly begins issuing these permits again. U.S. pork exporters, like all businesses, need a certain degree of predictability. The looming threat of import permit rejections could be enough to discourage U.S. pork exporters from conducting business.

Another WTO-inconsistent practice in Venezuela that has negatively affected U.S. pork producers is the implementation of the Andean Community's price band for "sensitive" agricultural commodities such as pork. Although this concern would become irrelevant if all tariffs on pork are eliminated, the importance of allowing exporters to anticipate any tariffs that might remain should be emphasized. This is simply not possible with the current system in Venezuela, under which tariffs change frequently and are based on reference prices that are often artificially high.

Chile recently lost a price band case at the WTO. The practice limits trade and must be halted.

The speedy resolution of these issues in Venezuela is a top priority for U.S. pork producers because of the great value of this market. Venezuelan processors are often undersupplied with pork products and would happily import the affordable quality pork that the U.S. can provide if only their government would make this feasible. This market easily could be worth tens of millions of dollars in U.S. pork exports.

COLOMBIA UNFAIRLY RESTRICTS PORK IMPORTS

Problems in Colombia are similar to those in Venezuela as detailed above. Whenever Colombia's Ministry of Agriculture determines that imports might hurt domestic producers, imports are prohibited for an indefinite period of time. Like Venezuela, the price band system causes severe problems in Colombia as well, with tariffs on pork sometimes spiking as high as 60%. These variations in tariffs prevent all but the largest of Colombian importers from being able to withstand the risk of importing substantial quantities of pork. The use of excessively high reference prices has been a significant problem for U.S. pork exporters as well.

Another prominent trade barrier in Colombia has been its use of disguised export subsidies for pork. Colombia has admitted to the WTO that a number of its domestic support programs actually constitute illegal export subsidies, but the Colombians have not yet confirmed that these subsidies have been eliminated.

THE COUNTRIES OF CENTRAL AMERICA MUST RECOGNIZE THE U.S. MEAT INSPECTION SYSTEM AND ELIMINATE TARIFFS

Unlike virtually all the countries to which the U.S. exports pork, some of the Central American countries do not accept pork from all USDA-approved facilities. Rather, like the European Union, these countries insist on sending their own inspectors to U.S. pork plants. This practice is completely unacceptable. It operates as a non-tariff barrier to trade.

The United States has the most comprehensive and effective system of food safety management in the world. The wholesomeness of the U.S. food supply is second to none in the world. An integral part of the U.S. food safety system is USDA's inspection and certification of U.S. meat producing facilities. Each of the Central American nations must agree to accept pork from any USDA-approved facility.

At one point not long ago, China was reluctant to accept pork from all USDA-approved facilities. USTR and USDA persuaded China to change its position, which is memorialized in the Agreement on U.S.-China Agricultural Cooperation. The Central American countries must also be persuaded to accept pork from all USDA facilities.

COSTA RICA

There are two major barriers in Costa Rica that thwart U.S. pork exports. First, early in 2002 Costa Rica began to require individual inspections of U.S. pork plants in order to certify them for export to Costa Rica. This requirement had an immediate adverse impact on a market that was already extremely protected by the second major barrier; exorbitant tariffs on pork which range from 45 to 50 percent. The paltry stream of U.S. pork exports to Costa Rica came to a virtual halt upon implementation of the plant inspection requirement. U.S. pork exports to Costa Rica in 2001 were modest at 173 MT. These then decreased almost 50% in comparing the January-November period of 2002 to the same period of 2001. The *de facto* ban on imports has created hardships for Costa Rica's domestic meat processing industry. Costa Rican processors can not get enough pork for their processing operations.

EL SALVADOR

Like Costa Rica, El Salvador also appears to be erecting barriers to U.S. pork exports in preparation for FTA negotiations with the United States. El Salvador has told USDA that it intends to require individual inspections of U.S. pork facilities. In addition, the tariff on pork was recently raised from 15% to 40%. To add insult to injury, El Salvador engages in blatant protection of its domestic pork industry by only granting import permits after domestic production is purchased at inflated prices, then trying to continue control of the sector by only granting permits for the precise amount of product needed domestically. This creates extreme unpredictability for potential exporters. All three of these restrictions are entirely unacceptable and must be resolved. If tariffs are not immediately lowered to zero they should begin to phase down from the previously applied rate of 15%.

GUATEMALA

Guatemala has a tariff rate quota (TRQ) that captures red meat imports. The in-quota duty of 15% on increases to a 30% out of quota duty once the red meat import quota of 1,595 MT is reached. It is especially difficult for one quota to be tied to all red meat, making it very hard for exporters to estimate when the quota might be filled. The tariff rate quota should be abolished and tariffs should be reduced to zero.

HONDURAS

Honduras also has stated its intention to require inspections of individual U.S. pork plants. Despite an 18% tariff and frequently changing sanitary regulations without WTO notification, 67% of Honduran pork imports were from the United States in 2001. Some Honduran producers have become upset at the rapid increase in the amount of U.S. product in their market, but it is obvious that the quality and affordability of U.S. product is what Honduran importers desire. Even with ludicrous recent accusations in the press from Honduran producers that U.S. pork is possibly contaminated due merely to the amount of time it is frozen, this market continues to grow.

NICARAGUA

Like some of its Central American neighbors, Nicaragua also recently increased its barriers to U.S. pork exports as FTA negotiations approach. Nicaragua raised its tariff on pork from 10 to 15%.

PANAMA

Panama's imports had been increasing significantly following WTO accession, but most of the advances in trade liberalization have since been reversed the past few years. Barriers that U.S. exporters of pork face now are myriad. Panama recently joined with many of its neighbors in requiring individual inspections of U.S. plants. This practice is utterly unacceptable. Moreover, tariffs on some pork products are as high as 81%, with the average tariff rate on pork is a staggering 43.3%. In addition, some U.S. exporters have been hampered by Panama failing to implement its stated policies. Panama has an official policy that a sanitary permit is presumed granted if it is not processed within 30 days. Yet in recent years this policy has often been ignored. This unpredictability costs exporters much time and money. Panama, along with other Central American countries, should eliminate pork tariffs and their plant inspection requirements, and also make import requirements precise and clear.

THE CARIBBEAN NATIONS MUST REMOVE ILLEGITIMATE BARRIERS

The nations of the Caribbean should be a huge market for U.S. pork producers given the geographical proximity of these nations and the prohibitive expense of producing pork domestically (since nearly all feed grains must be imported). However, very little of this potential has materialized due to blatant protectionism. There are both prohibitive tariffs and technical/sanitary barriers in both the CARICOM countries as well as in other nations in the region. Two of the most significant potential markets in this region are Jamaica and the Dominican Republic. Some specific examples of the many barriers to U.S. pork exports in the region are listed below.

JAMAICA

Jamaica maintains an outright ban on imports of fresh pork from the U.S. This is due to non-science-based concerns about Pseudorabies Virus (PRV), which is also know as Aujeszky's disease. The U.S. is on the precipice of eradicating PRV. Regardless of the U.S. eradication program, there is no valid scientific reason for restricting pork exported from countries which have not yet eradicated PRV. The OIE Code chapter on Aujeszky's disease does not include pork in the list of commodities to be considered a risk. Virtually the whole world accepts U.S. pork without restriction.

There is also a 40% tariff on pork in Jamaica. This exorbitant tariff must be eliminated or reduced to single digit levels.

DOMINICAN REPUBLIC

Over the course of the past few years the level of protection afforded the domestic meat industry in the Dominican Republic has increased significantly. Specifically, a huge tariff of 25% on pork was implemented. But, more troubling, a *de facto* ban on pork imported from the U.S. was instituted by virtue of the government's failure to issue import licenses. These restrictive measures were supposedly short-term fixes intended to be eliminated within a year. However, more than two years later these barriers remain in place. U.S. pork exporters continue to have their applications for import permits rejected, with no clear explanation for the rejection provided.

THE MERCOSUR COUNTRIES MUST GIVE U.S. PORK EQUAL MARKET ACCESS

The members of the Common Market of South America (MERCOSUR) extend preferential tariff treatment to each other. This situation severely limits the inroads that the U.S. pork industry can make in this region. The FTAA agreement should level the playing field and provide U.S. pork exporters with the same trade benefits that these nations provide to each other.

ARGENTINA

U.S. pork exports to Argentina no longer are banned due to a recent sanitary agreement. The current economic climate in Argentina has not been conducive to pork exports from the U.S. under the new sanitary protocol. However, Argentina's pork processing sector is reliant on imports. (Most pork in Argentina is consumed in processed form, not as chilled/frozen table meat.) Brazil, a key global competitor to the U.S. pork industry, supplies the vast majority of Argentina's pork imports. Brazil benefits from significant MERCOSUR tariff advantages on pork. The U.S. should obtain the same access as Brazil as part of a FTAA agreement.

BRAZIL

Brazil does not currently recognize the U.S. plant inspection system, instead insisting on approving U.S. plants individually to be eligible to export to Brazil. This is unacceptable. As for Brazil's pork industry, in recent years both pork production and exports have increased dramatically. Brazil's pork exports increased more than 600% in the 5-year period from 1997-2002. The surge in exports has been aided by the depreciation of the real. About 80% of Brazilian pork exports are to Russia. Many in the international meat community question whether the currency devaluation and normal market conditions account for the increase in Brazilian pork exports. Brazil utilizes a number of localized subsidy programs for pork. It is difficult to determine the exact impact of these programs. However, the extremely low prices at which Brazil is selling pork to Russia suggest that subsidies may be impacting the market. In the process of FTAA negotiations this matter should be thoroughly investigated to ensure Brazil is meeting its WTO commitments.

Additionally, fresh and processed U.S. pork products are subject to duties of 11.5% and 7.5% respectively in Brazil. This is in contrast to MERCOSUR members who are able to ship pork duty free. Brazil's production and productivity indexes are comparable to those achieved in other pork exporting nations. The Brazilian pork industry is advanced, export-focused, and should not be shielded from competition in any way in the FTAA agreement.

PARAGUAY

Paraguay currently has a tariff of 13% on pork from the U.S. while there is no tariff for their MERCOSUR neighbors. Brazil has certain advantages in shipping to this market given the geographical proximity. However, on a level playing field U.S. pork producers will be able to make export sales.

URUGUAY

The situation for U.S. pork producers in Uruguay is almost identical to that in Paraguay. There is no tariff for MERCOSUR members and the tariff is 13% for the U.S.

Mr. Chairman, I thank you for the opportunity to present this statement.

Senator COLEMAN. Mr. Doud.

STATEMENT OF GREGG DOUD, CHIEF ECONOMIST, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, WASHINGTON, DC

Mr. DOUD. Mr. Chairman, The NCBA appreciates the opportunity to present our views on the future relations in the Western Hemisphere. We are the association of America's cattle farmers and ranchers and the marketing organization for the largest segment of the Nation's food and fiber industry. I am Gregg Doud, our chief economist here in Washington.

NCBA supports trade initiatives that reduce barriers to access for U.S. beef. Trade liberalization has been a key to economic growth for centuries. Nonetheless, there is a concern that past negotiations have given more access than we have received. We are the world's largest beef importer and second-largest exporter. Last year, we imported about $2.8 billion worth of beef and variety meats, and exported $3.2 billion.

NCBA is closely following FTA negotiations, and has not yet opposed any FTA nor the FTAA, as it makes no sense to ignore the more than 500 million consumers that inhabit the Americas outside of the United States. However, our position is that we will only support initiatives that are conducted on a parallel track with multilateral WTO negotiations and result in a net increase in U.S. beef exports.

Current Western Hemisphere economic issues are almost entirely centered around two categories: existing and future trade agreements. Of course, when we speak of existing agreements, this means the NAFTA. And for the U.S. beef industry, NAFTA has been a tremendous success story.

Mexico's 103 million citizens have experienced a 33 percent increase in per capita income over the last 5 years. And this increase in disposable income has led directly to increases in Mexican beef consumption. While Mexico's domestic beef production has struggled to expand and meet this demand in recent years due to drought, U.S. beef and variety meat exports to Mexico have grown. From an inconsistent market of about 100,000 tons and $200 million prior to NAFTA, Mexico today is our most significant market in terms of tonnage, and about 350,000 tons in 2002 and an $854 million market.

The tariff on all North American beef trade has been zero since 1994. This is a mutually beneficial trading relationship as the United States also imports around 1 million head of Mexican feeder cattle at about $400 million. In fact, today's integrated North American cattle market now looks very much like what was envisioned a decade ago by NAFTA proponents with consumer-driven economic drivers dictating the future direction of the industry.

The frustration has grown this year as we have received news that the Mexican cattle industry filed a petition with its government asking for a safeguard due to a surge in imports. Details are unclear, but upon hearing the news, we formed a coalition to coordinate a legal strategy with the U.S. Meat Export Federation and AMI. We expect a decision from the Mexican Government soon on whether or not this petition will be accepted.

The Chilean FTA will likely serve as a model for the FTAA and a Central American agreement. A critical element of this agreement is Chile's recent acceptance of the U.S. meat grading system as equivalent to Chilean "norms." NCBA also strongly supports the agreement's system-wide approval of each country's inspection systems. We recommend that meaningful oversight be continued by our government to ensure that equivalency is achieved and maintained.

In CAFTA, two or three countries currently import beef from the United States, and only about—this only accounts to about 35 percent of the quota allocated in recent years.

As far as animal health, in spite of questionable and ever-changing status of herd health in South America, many of the major beef producing and potential exporting countries there continue to press for increased access to U.S. beef market. Before this can occur, though, NCBA strongly believes that these countries should first conduct a hemispheric initiative to eradicate FMD throughout South America.

The United States must hold its trading partners to commitments agreed to in previous trading agreements and aggressively negotiate for access for U.S. agricultural commodities or risk losing public support for trade in international marketing. NCBA firmly believes that any expansion of access to the U.S. beef market must be part of an overall package that gains us access in emerging and current markets around the world.

NCBA will oppose any agreement that allows a net increase in access to the U.S. beef market. A strong, clear and irrevocable message must be sent to Cairns Group and Mercosur beef exporting countries that no increased access to the U.S. beef market will be forthcoming until meaningful access and tariff reduction is achieved in other major beef importing countries.

A recent analysis by FAB of future trends shows that U.S. beef production will grow by 14 percent by 2012 with a subsequent 28 percent increase in beef exports. That is about $900 million worth. NCBA believes that future growth in our industry is dependent upon trade, and the economics of agriculture in the Western Hemisphere are a critical component of this future.

Our trade expansion goal also means that we cannot let existing trading relationships slip or be taken for granted. A firm commitment to existing agreements by industry stakeholders and the U.S. Government must be maintained. This includes a constant fostering of relationships with our trading partners and constant vigilance with respect to maintaining compliance.

Implementation of this strategy also means that our government needs to be adequately staffed. That means we need more full-time equivalents in our government devoted to trade agreement maintenance of both USDA and USTR. A letter we recently submitted requesting these FTEs is attached to this testimony.

Our future success depends upon our ability to properly manage both new and existing trade agreements.

Thank you for the opportunity to present this information before your committee.

Senator COLEMAN. Thanks very, very much, Mr. Doud.

[The prepared statement of Mr. Doud follows:]

PREPARED STATEMENT OF GREGG DOUD, CHIEF ECONOMIST, NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Chairman Coleman and members of the subcommittee; the National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our views on the future of economic relations in the Western Hemisphere. I am Gregg Doud, NCBA's

Chief Economist here in Washington DC, and today I would like to focus on trade policy as it relates to our trading partners in the Western Hemisphere.

NCBA supports trade initiatives that reduce barriers to access for U.S. beef. NCBA and many other U.S. agricultural organizations worked tirelessly for Trade Promotion Authority (TPA) and support the Administration's pro-trade agenda. We support this agenda because it is the right thing to do for U.S. agriculture and for the country. Trade liberalization has been a key to economic growth for centuries. Nonetheless, there is concern that past negotiations have given more access than we have received. Future trade agreements must provide favorable access for U.S. agricultural products. We need a big pro-trade win for U.S. agriculture at the negotiating table that provides opportunity for U.S. producers. NCBA will not support any agreement that delivers less.

The U.S. is the world's largest beef importer and the second largest beef exporter. In 2002, the U.S. imported approximately $2.8 billion of beef and variety meats ($887 million from Australia) and exported $3.2 billion. Due to the unique position of our industry as importer and exporter, NCBA must consider balance, equity, and fairness of proposed trade initiatives to assure that any agreement provides net access for U.S. beef. Perceptions in some parts of the industry are that this has not always been the case. Indeed the U.S. is the most open, least restricted major beef market in the world. At the same time the U.S. beef industry has witnessed first-hand the value of market opening trade agreements.

In a world of unlimited trade issues and limited negotiating resources, NCBA strongly prefers focusing on the World Trade Organization (WTO) multilateral initiative. NCBA will not support increased access to the U.S. beef market until meaningful access and tariff reduction is achieved in other major beef importing countries. Because several South American countries are major beef exporters and many major beef importers are in Asia and Europe, this balanced objective can only be achieved through comprehensive multi-lateral WTO negotiations.

NCBA is closely following FTA negotiations and has not yet opposed any FTA nor the FTAA as it makes no sense to ignore the more than 500 million consumers that inhabit the Americas outside the United States. However, our position is that we will only support initiatives that are conducted on a parallel track with multilateral WTO negotiations and result in a net increase in U.S. beef exports. We note that both the Doha development agenda and the FTAA are slated to be concluded by 2005, meaning that at this time both negotiations are proceeding on a parallel track.

NAFTA

Current Western Hemisphere agricultural economic issues are almost entirely centered around two categories: existing trade agreements and future agreements. Of course when we speak of existing agreements, this means the NAFTA. For the U.S. beef industry, NAFTA has been a tremendous success story.

Since NAFTA, Mexico's 103 million citizens have experienced a 33 percent increase in per capita income over the last five years. This increase in disposable income has led directly to increased Mexican beef consumption. While Mexico's domestic beef production has struggled to expand and meet this demand in recent years due to drought, U.S. beef and variety meat exports to Mexico have grown. From an inconsistent market of about 100,000 mt and $200 million prior to NAFTA, Mexico is our most significant market in terms of tonnage in 2002 of 350,000 mt and $854 million. Japan remains our best market with 2002 beef and variety meat exports totaling $1.028 billion.

This is a mutually beneficial trading relationship as the U.S. also imports around one million head of Mexican feeder cattle each year that have an approximate average value of around $400 million. In fact, today's integrated North American cattle market now looks very much like what was envisioned a decade ago by NAFTA proponents with consumer-driven economic drivers dictating the future direction of this industry.

Although the tariff on all North American beef trade has been zero since January 1, 1994, Mexico alleged in mid-1997 that beef, beef variety meats, and cattle entering Mexico were being sold below the cost of production. On April 28, 2000, Mexico's Secretariat of Commerce and Industrial Development (SECOFI) issued its final decision on the antidumping case against exporters of U.S. beef and beef variety meats by imposing a complex set of specific duties on most beef carcasses and cuts. These duties are still in place today, which serve to lock some U.S. export interests out of the Mexican market even though they may not have even existed at the time these trade restrictions were put in place.

Frustration has grown over the last three months as we received news that the Mexican cattle industry filed a petition with its government asking for a safeguard due to a “surge” in beef imports. Details are unclear because neither the Mexican government nor the Mexican beef industry has officially released anything regarding this issue. Upon hearing that a safeguard petition had been filed, the National Cattlemen’s Beef Association (NCBA), U.S. Meat Export Federation (USMEF), and the American Meat Institute (AMI) formed a coalition to coordinate a legal strategy, should the Mexican government decide to accept this petition. A decision by the Mexican government on whether or not this petition will be accepted is anticipated within the next few weeks.

CHILE

The Chilean FTA will likely serve as a model for the FTAA and a Central American agreement. A critical element of this agreement is Chile’s recent acceptance of the U.S. meat grading system as equivalent to Chilean “Norms.” NCBA also strongly supports the agreement’s system-wide approval of each country’s inspection systems. We recommend that meaningful oversight be continued by our government to ensure that equivalency is achieved and maintained.

CAFTA

Increasing trade relationships with Central American countries will contribute to economic growth, political stability, bolster front-line defenses against the introduction of foreign animal diseases into North America and have the potential to moderately increase U.S. exports of high quality beef. NCBA stands ready to lend our support in any way necessary to achieve that end.

The U.S. and Central America have an established track record in jointly eradicating animal diseases and pests such as FMD and the screwworm from Central and North American livestock populations. Central America serves as the buffer zone between North American and South America, where these diseases and pests are still prevalent. The Darien Gap in Panama is where this front line of defense against reintroduction exists today.

Two or three countries in Central America currently export beef to the U.S. under the 64.81 thousand metric ton “Other Countries” TRQ. However, only 35 percent of this quota has been utilized in recent years. There is also potential to export moderate quantities of high quality U.S. beef for Central American restaurants and tourism.

ANIMAL HEALTH

The U.S. cattle industry has a long history of cooperation with Mexican cattle producers on a wide variety of issues including animal health and phytosanitary concerns. NCBA and the U.S. beef industry have witnessed the huge economic and social costs that FMD and BSE have created in Europe. We are determined that the North American industry will not suffer the same fate. Any negotiated agreements must buttress our animal health infrastructure and not jeopardize our system.

Several South American countries have experienced outbreaks of Foot-and-Mouth Disease (FMD) since March 2001 and are in the process of recertifying their FMD-free status and eligibility to export fresh and frozen beef to the U.S.

NCBA recently returned from a fact finding trip to Uruguay, which is seeking to export fresh beef to the U.S. under an FMD free with vaccination protocol. Uruguay has demonstrated its full compliance with all international animal health reporting requirements. They took prompt action when FMD was identified in Uruguay to protect the U.S. beef industry. We have confidence they will continue to uphold their responsibilities as well as work with us to open markets for beef worldwide.

In spite of the questionable and ever-changing status of herd health in South America, many other major beef producing and potential exporting countries there continue to press for increased access to the U.S. beef market. Before this can occur, however, NCBA strongly believes these countries should first conduct a hemispheric initiative to eradicate FMD throughout South America. Secondly, we need to work together at the WTO to negotiate reduced subsidization and increased market access in beef markets around the world.

MARKET ACCESS

The U.S. must hold its trading partners to commitments agreed to in previous trade agreements and aggressively negotiate access for U.S. agricultural commodities or risk losing public support for trade and international marketing. NCBA firmly believes that any expansion of access to the U.S. beef market must be part of an overall package that gains access for U.S. beef exports in Europe (EU as well as aspiring EU members), Japan, Korea and other existing and emerging international beef markets. NCBA will oppose any agreement that allows a net increase in access to the U.S. beef market. A strong, clear and irrevocable message must be sent to Cairns Group and Mercosur beef exporting counties—major U.S. beef suppliers—that no increased access to the U.S. beef market will be forthcoming until meaningful access and tariff reduction is achieved in other major beef importing countries.

SUMMARY

NCBA appreciates the initiatives that have been undertaken to gain access to international markets and to resolve lingering issues that restrict the ability of the U.S. beef industry to offer its products to international consumers. We look forward to working with all of our trading partners in the Western Hemisphere to address industry concerns about current global disparities in market access, export subsidies and domestic support as well as maintaining the disease-free status of the U.S. herd.

A recent analysis of future trends shows U.S. beef production growing 14 percent by 2012 and a subsequent 28 percent (or roughly $900 million) increase in U.S. beef exports. NCBA believes future growth in our industry is dependent upon trade, and the economics of agriculture in the Western Hemisphere is a critical component of this future.

The National Cattlemen's Beef Association is focused on meeting our trade objectives by participating in the process of evaluating critical trade issues within the beef industry. NCBA looks forward to providing additional input as the U.S. advances its proposals at the WTO, negotiates bi-lateral and regional agreements and resolves a growing list of SPS issues with the European Union, Russia and other trading partners.

Our trade expansion goals also mean that we cannot let existing trading relationships slip or be taken for granted. A firm commitment to existing agreements by industry stakeholders and the U.S. government must be maintained. This includes a constant fostering of relationships with our trading partners and constant vigilance with respect to maintaining compliance. Implementation of this strategy also means that our government needs to be adequately staffed. That means we need more FTEs devoted to trade agreement maintenance at both USDA and USTR. A letter we recently submitted requesting these FTEs is attached to this testimony. Our future success depends upon our ability to properly manage both new and existing trade agreements. Thank you for the opportunity to present this information before the committee.

APPENDIX

Animal Health: NCBA recently returned from a fact finding trip to Uruguay, who is seeking to export fresh beef to the U.S. under an FMD free with vaccination protocol. Such an option is supported by the International Office of Epizootics (OIE) which has stringent requirements regarding beef trade where FMD is present. Since the last case of FMD was identified in August of 2001, Uruguay will not qualify for this status until August of 2003.

We are confident that if APHIS determines they are indeed free of FMD with vaccination and the mitigating measures are met and verified that the importation of beef from Uruguay represents virtually no risk to the health of the U.S. cattle herd.

We encourage APHIS to routinely verify that the serology studies in Uruguay continue to illustrate they are free of circulating FMD virus and compliance with the mitigating measures is fully documented both in Uruguay and upon arrival of product in the U.S. The NCBA may make additional site visits to Uruguay to verify compliance as well.

The NCBA remains committed to taking the necessary science and risk analysis based steps to prevent the introduction, amplification, or spread of all foreign animal diseases in the United States. We will also work closely with other beef producing countries around the world to take the steps necessary to eradicate diseases such as FMD. We stand by our commitment to work with countries in South America to eradicate FMD from the Western hemisphere and we hope APHIS will work with us to achieve these objectives.

Export Subsidies: The U.S. beef industry does not use export subsidies and NCBA strongly supports the Administration's proposal to phase out all export subsidies within five years. Since the EU and other countries seem to be obsessed with U.S. export credits, the U.S. beef industry is willing to go zero U.S. beef export credits for zero EU beef export subsidies. The EU is by far the largest user of export subsidies, however at least two export subsidies must also be addressed within the context of an FTAA.

- Argentina provides an export credit to beef and other products through a tax rebate scheme allowing exporters to receive a refund of between 2.5 and 8 percent of taxes paid depending on the product category.
- Brazil offers tax and tariff incentives to promote exports through exemptions of withholding taxes and other tax exemptions.

Domestic Support: The U.S. beef industry is among the least supported U.S. agricultural commodities and among the least subsidized international beef industries. NCBA is willing to work closely with the administration on strategies to reduce overall domestic support. We strongly support the Administration's comments that the U.S. intends to live up to its WTO commitments and that circuit breakers in the 2002 Farm Bill will be triggered if the U.S. exceeds our commitments and the proposal to reduce domestic supports to a level five percent of the value of agricultural production. NCBA is especially interested in seeing that domestic supports in the global beef industry (primarily EU and aspiring EU members) are minimized and will consider a zero for zero proposal or proposals for substantial reduction of domestic supports in the meat sector. At least one export subsidy must also be addressed in the context of an FTAA.

- Argentina pays 25 percent of the interest rate charged for credit used for cattle production.

Access Issues: The U.S. is currently the least restricted and largest beef import market in the world. The United States is also the world's second largest beef exporter. Beef markets in other developed countries remain virtually closed to U.S. beef (EU) or protected by relatively high tariffs (Japan at 38.5 percent and Korea at 41.4 percent). At the same time the U.S. has granted other countries 696,420 metric tons of TRQ at zero duty with a 26.4 percent tariff becoming effective in the rare instances when countries fill their allocated share of the TRQ. Of the total U.S. beef TRQ, Australia has 54 percent (378,210 metric tons) and New Zealand another 31 percent (213,400 metric tons) for a total of 85 percent. The remaining 15 percent is allocated to countries that would be likely to participate in an FTAA—Argentina (20,000 metric tons), Uruguay (20,000 metric tons), and "Other" primarily Central American countries and Brazil (64.81 metric tons), on the condition that they maintain their animal health status.

NCBA will support continued movement towards reduced tariffs and expanded TRQs, but only as part of a comprehensive package that addresses export subsidies, production subsidies and a continuing and growing list of SPS and Technical Barriers to Trade (TBT) issues. Specifically, NCBA will support tariff reduction and modest expansion of U.S. TRQs as part of an overall aggressive trade package that gains additional access for U.S. beef in international markets.

The WTO accession agreement with China establishes an aggressive target for beef tariffs by reducing most beef tariffs in China from 45 percent to 12 percent by 2004. NCBA believes that 12 percent is a worthy target and should be the objective for global beef tariffs at the conclusion of the next scheduled tariff reduction. If China can reduce tariffs on beef from 45 percent to 12 percent, NCBA believes that the EU (current tariff at 57 percent with a 20 percent in-quota tariff), Japan (current tariff at 38.5 percent) and Korea (current tariff at 41.4 percent) should also be able to reduce their tariffs to 12 percent. The U.S. beef industry (current tariff at 26.4 percent above a 696,420 metric ton TRQ, which is not subject to any tariff) will accept tariff reduction equivalent to reductions in other countries.

NCBA will not accept any reduction in U.S. beef tariffs unless the disparities in access for U.S. beef in the other major developed countries is addressed. NCBA would support discussion about modifications in trade law in exchange for support from Brazil in opening other markets and meaningful tariff reduction in Japan, the EU and other trading partners. NCBA will work to ensure that the U.S. beef industry is protected from surges in imports and predatory pricing activities, especially when unfair trade business practices are contributing factors. NCBA supports changing WTO rules to develop alternative definitions for "dumping" more consistent with the practical realities of a cyclical, perishable, agricultural commodity.

Brazil currently has a beef tariff of 13 percent and Chile has a tariff of 11 percent, so there should be strong support from most FTAA countries to target reduction in this tariff. The EU has retained a 20 percent in-quota tariff within its (insultingly small) 11,500 metric ton tariff rate quota, and tariffs begin with the first pound of product shipped to Japan and Korea where there is no TRQ at zero duty.

As indicated earlier, only 15 percent of the current U.S. beef TRQ is allocated to FTAA countries. Given NCBA's support for negotiating an FTAA on a parallel track with WTO negotiations, we believe that any movement to expand existing U.S. tariff rate quotas should be made with the objective of rebalancing access to the U.S. beef market in the favor of FTAA trading partners. Alternatively, some type of inverse Swiss formula should be developed to give those countries with the smallest TRQs the largest increases. If the existing U.S. beef TRQ is expanded as proposed in the U.S. negotiating proposal, NCBA recommends that a majority (if not all of) the increase be distributed among Central and South American countries that participate in the FTAA. The condition that these countries maintain their animal health status, including a Foot-and-Mouth Disease free (FMD-free) status, before shipping any fresh or frozen product to the U.S. is non-negotiable.

There are several valid economic and political reasons for rebalancing U.S. beef TRQs in the context of an FTAA in parallel with multilateral WTO negotiations:

1. Several of the FTAA countries are currently suffering varying degrees of economic stress and political unrest. Expanding trade through an FTAA will help bring economic growth and political stability to the hemisphere.

2. Australia and New Zealand are developed countries with adequate resources to develop alternative beef markets. The U.S. market is the path of least resistance and these countries will always prefer to expand access to the U.S. beef market rather than work to expand or develop alternative markets. If U.S. access is not increased, they will work to develop alternative markets (as was recently the case when Australia was denied increased access to the U.S. market and decided to join the U.S. in committing resources to rebuild the beef market in Japan).

3. South America has a population of 370 million and Central America has a population of 38.4 million, compared to Australia with 19.4 million and New Zealand with 3.9 million. Expanded trade increases economic growth and consumers' disposable income in developing countries. Beef demand increases as disposable incomes increase (witness Mexico, Korea and China). As economic growth in South America recovers in response to an FTAA, an increasing number of middle-class consumers will be able to purchase beef, either from beef producing countries in South America or from the U.S. Expanding access to the U.S. beef market for FTAA countries has a much greater potential pay-off in terms of expanded beef demand than expanding access to the U.S. beef market for Australia and New Zealand.

4. FTAA countries will be much more likely to support the U.S. negotiating position for opening Europe and expanding access in Japan if the prospect of increased access to the U.S. beef market is part of the FTAA package.

Access issues to be considered as an FTAA is negotiated:

- Brazil imposes licensing and other bureaucratic requirements, including import financing rules, to importers that limit import volumes.
- The U.S. industry will accept tariff reduction equivalent to reductions in all other countries, including the other primary beef importing countries.
- Brazil has a current tariff rate for beef of 13 percent.
- Uruguay's tariff rate structure includes an 11.5 percent tariff for bone-in beef and a 13.5 percent tariff for deboned meat.
- Cattlemen in Colombia are supporting variable import duties for beef through the Andean Price Band system to restrict beef imports.

NATIONAL CATTLEMEN'S BEEF ASSOCIATION
Washington, DC, April 15, 2003

The Honorable KIT BOND
274 Russell Senate Office Building
Washington, DC 20515

SENATOR BOND,

The National Cattlemen's Beef Association appreciates the effort that you have put forth in support of the beef industry. We would like to call your attention to a trade-related issue that is of increasing concern.

Over the years, NCBA has supported efforts that liberalize trade and allow for increased export opportunities for U.S. beef producers. Our industry has seen tremendous increases in exports to many countries. For example, Japan, Mexico, Canada and South Korea have become very important markets for our product.

The Administration continues efforts to open markets and liberalize trade. Using its authority under Trade Promotion Authority, the Administration is working to negotiate a series of bi-lateral and multilateral trade agreements. While NCBA supports trade liberalization generally, we are concerned the continuing negotiations of additional trade agreements are tying up federal staff resources that would otherwise be ensuring the proper implementation of current agreements and maintaining vigilance over existing disputes.

The beef industry has been embroiled in a long-standing dispute with the European Union over access of U.S. beef. Recently, additional beef-related disputes have occurred with Mexico and Japan. Trade of agricultural products with Russia continues to be problematic. Resources that could be used to manage these disputes are now focused on negotiating additional agreements. For example, the USTR Australia Free Trade Agreement team now numbers 40 staff persons.

While NCBA understands the necessity of assigning personnel to negotiate additional agreements, we must not do so at the expense of implementation and compliance with existing agreements. Given a shortage of staff personnel at USTR and USDA-FAS, NCBA requests additional funding for personnel at both USTR and FAS to focus on current problematic trade issues. We recommend 10 additional personnel (6 FTEs at USTR and 4 FTEs at USDA) to focus on these issues.

We look forward to working with you to make these additional resources possible. If we can help you in any way, please contact us at 202-347-0228.

Sincerely,

ERIC DAVIS,
NCBA President.

Senator COLEMAN. Mr. Frederickson.

STATEMENT OF DAVID J. FREDERICKSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. FREDERICKSON. Mr. Chairman, thank you very much. And before I go into the testimony, I would like to compliment you on a remarkable piece of work, and that is to offer Jeff Harrison gainful employment.

Let me also say that I would like to offer the Minnesotan endorsement for that, and steal from Stuart Smalley and from Saturday Night Live and say that Jeff is good enough, smart enough, and dog-gone-it, people like him.

Senator COLEMAN. Thank you, Mr. Frederickson.

Mr. FREDERICKSON. Mr. Chairman, members, it is indeed an honor to appear before you today as president of the National Farmers Union. While I understand the committee must consider certainly a broad range of topics affecting the U.S. relationship with other nations of the Western Hemisphere, I will focus my comments on our agricultural prospects.

By way of background, I believe the committee should be aware that farmers and ranchers view the overall U.S. agricultural trade agenda with great suspicion across the Nation. This is not occurring because the support for trade by agricultural produces is waning, but due to the real and perceived failure of our trade agreements to improve the fairness of agricultural trade and to provide tangible economic benefits to producers. It is hardly surprising that farmers are a little bit cynical about trade when the free trade rhetoric continues the decades-old suggestion that agricultural prosperity based on expanding markets is always just around the corner, a destination at which producers never seem to arrive.

The exaggerated claims about our dependence upon trade agreements as a means to expand export markets and improve production and agriculture's economic well-being is beginning to wear just a little bit thin. The only real, sustained agricultural market growth we have experienced in nearly three decades has occurred in our own domestic market. Unfortunately, our trade policy and approach to trade agreements increasingly open our markets to our competitors, whether the competition is fair or not, while failing to deliver the level of export market opportunity that results in enhanced economic returns to our producers.

My organization, the National Farmers Union, is keenly aware that the United States must identify and address some very significant challenges in the context of our trade relations with other nations of the Western Hemisphere if real, broadly dispersed, economic benefits are to accrue to our country and other nations of the region.

No other economic segment in the United States may be as directly impacted by the trade developments in the Americas than those involved in agricultural production. The long-term effect of these trade discussions will largely determine the economic livelihood and the future viability of many individual farm and rancher families.

I believe farmers are rightly concerned that more trade agreements in the region, particularly if patterned after the North American Free Trade Agreement model, will only serve to increase the level of import competition while providing, at best, only modest export market opportunities.

Agricultural trade among the nations of the Western Hemisphere can, and indeed, should incorporate the following objectives to provide the foundation for a more rational, equitable, and beneficial global trading regime: Ensuring consumer access to an adequate, safe, and certainly affordable food supply would be one; creating the opportunity for agricultural producers to generate reasonable rates of return on their labor, their investment, and on their risk-taking would be another; addressing all forms of agricultural trade and production distorting policies, actions, and interventions in a comprehensive and equitable fashion, including the traditional market access and subsidy issues as well as monetary, labor, and environmental policies that can be utilized to convey competitive trade advantages to producers or other agricultural sectors; allowing flexibility for individual nations to provide economic safety net programs and address unforeseen production, market, and trade circumstances; encourage a balance of increased and transparent market competition by coordinating efforts to enforce limits on the concentration of market power; promote the economic and resource sustainability, as well as the efficiency of food production and distribution systems; and to create an effective, timely, and transparent implementation, compliance, and dispute resolution process.

The social, political, economic and even moral significance of agriculture in both developed and developing nations suggests that while trade rules and disciplines are needed, the commercial trade considerations that are applied to other sectors may not provide the appropriate model for agriculture.

Mr. Chairman, I want to thank you for the opportunity to share these views concerning agricultural trade opportunities and challenges that we must confront and resolve in the Western Hemisphere, and am pleased to stand for any questions, Senator.

Senator COLEMAN. Thank you very, very much, Mr. Frederickson.

[The prepared statement of Mr. Frederickson follows:]

PREPARED STATEMENT OF DAVID J. FREDERICKSON, PRESIDENT, NATIONAL FARMERS UNION

Mr.Chairman, members of the Subcommittee, it is an honor to appear before you today as president of the National Farmers Union. While I understand the Committee must consider a broad range of topics affecting the U.S. relationship with the other nations of the Western Hemisphere, I will focus my comments on our agricultural trade prospects.

By way of background, I believe the Committee should be aware that farmers and ranchers view the overall U.S. agricultural trade agenda with great suspicion across the nation. This is not occurring because the support for trade by agricultural producers is waning, but due to the real and perceived failure of our trade agreements to improve the fairness of agricultural trade and to provide tangible economic benefits to producers. It is hardly surprising that farmers are a bit cynical about trade when the free trade rhetoric continues the decades-old suggestion that agricultural prosperity based on expanding exports is always just around the corner, a destination at which producers never seem to arrive. The exaggerated claims about our dependence upon trade agreements as a means to expand export markets and improve production agriculture's economic well-being is beginning to wear thin. The only real, sustained agricultural market growth we have experienced in nearly three decades has occurred in our own domestic market. Unfortunately, our trade policy and approach to trade agreements increasingly open our markets to our competitors, whether the competition is fair or not, while failing to deliver the level of export market opportunity that results in enhanced economic returns to our producers.

My organization is keenly aware that the U.S. must identify and address some very significant challenges in the context of our trade relations with the other nations of the Western Hemisphere if real, broadly dispersed economic benefits are to accrue to our country and the other nations of the region. No other economic segment in the U.S. may be as directly impacted by the trade developments in the Americas than those involved in agricultural production. The long-term effect of these trade discussions will largely determine the economic livelihood and future viability of many individual farm and rancher families.

As part of our overall agricultural trade, there is no question that the Western Hemisphere is important both to the U.S. as well as our trading partners in the region. In 2002, more than 38 percent of our total agricultural exports were sold in the "Americas", and more than 55 percent of U.S. competitive agricultural imports, those which compete directly with commodities produced in the U.S., came from this region. (Charts 1 and 2) However, as we consider these trading relationships, we must remember the region includes many of our current agricultural trade competitors for markets both within and outside the hemisphere. It also represents a substantial agricultural production growth area for a broad range of products from basic commodities such as oilseeds, corn and cattle to specialty crops.

I believe farmers are rightly concerned that more trade agreements in the region, particularly if patterned after the NAFTA model, will only serve to increase the level of import competition while providing, at best, only modest export market opportunities.

We are not opposed to trade agreements as an important mechanism to provide discipline and enhance the fairness of international trade. However, I believe we must consider undertaking a broader agricultural trade agenda that seeks to address the causes of and needs for the many types of distorting practices that characterize agricultural trade. These must include the recognition of need to achieve domestic food safety and security and the prevalence of a supply/demand imbalance the results in inadequate economic returns to producers and concentrated market power among a limited number of agricultural market participants. Such an agenda should explore new prospects for greater harmonization and cooperation among the nations of the region that extend beyond the traditional trade considerations of tariff levels, border measures, domestic and export subsidies and special and differential treatment for developing countries.

In order to achieve such an outcome, we should focus less on the rhetoric of free trade, which creates expectations that generally cannot be delivered, and more on agricultural trade as a "means" to improving individual standards of living, fostering economic development and enhancing producer returns.

Agricultural trade among the nations of the Western Hemisphere can and should incorporate the following objectives to provide the foundation for a more rational, equitable and beneficial global trading regime.

- Ensure consumer access to an adequate, safe and affordable food supply.
- Create the opportunity for agricultural producers to generate reasonable rates of return on their labor, investment and risk-taking by coordinating efforts to reduce dumping, balance supply and demand, share responsibility to guarantee food security and maximize the opportunity for individual and cooperative participation in all segments of agriculture.
- Address all forms of agricultural trade and production distorting policies, actions and interventions in a comprehensive and equitable fashion, including the traditional market access and subsidy issues as well as monetary, labor and environmental policies that can be utilized to convey competitive trade advantages to producers or other agricultural sectors.
- Allow flexibility for individual nations to provide economic safety net programs and address unforeseen production, market and trade circumstances.
- Encourage a balance of increased and transparent market competition by coordinating efforts to enforce limits on the concentration of market power.
- Promote the economic and resource sustainability as well as the efficiency of food production and distribution systems.
- Create an effective, timely and transparent implementation, compliance and dispute resolution process.

The social, political, economic and even moral significance of agriculture in both developed and developing nations suggests that while trade rules and disciplines are needed, the commercial trade considerations that are applied to other sectors may not provide the appropriate model for agriculture.

We have a unique opportunity in the Western Hemisphere to supplant a variety of existing and proposed bilateral and regional trade agreements with a new, more comprehensive agricultural trading system. A commitment to creating an agricultural trade environment that addresses the objectives I have outlined today can result in the distribution of both the benefits and challenges of trade more broadly and equitably among producers and consumers. At the same time, those of us in the Western Hemisphere will be able to establish a new model for global agricultural cooperation and competition.

Thank you for the opportunity to share my views concerning agricultural trade opportunities and challenges that we must confront and resolve in the Western Hemisphere.

Chart 1

U.S. Competitive Agriculture Imports

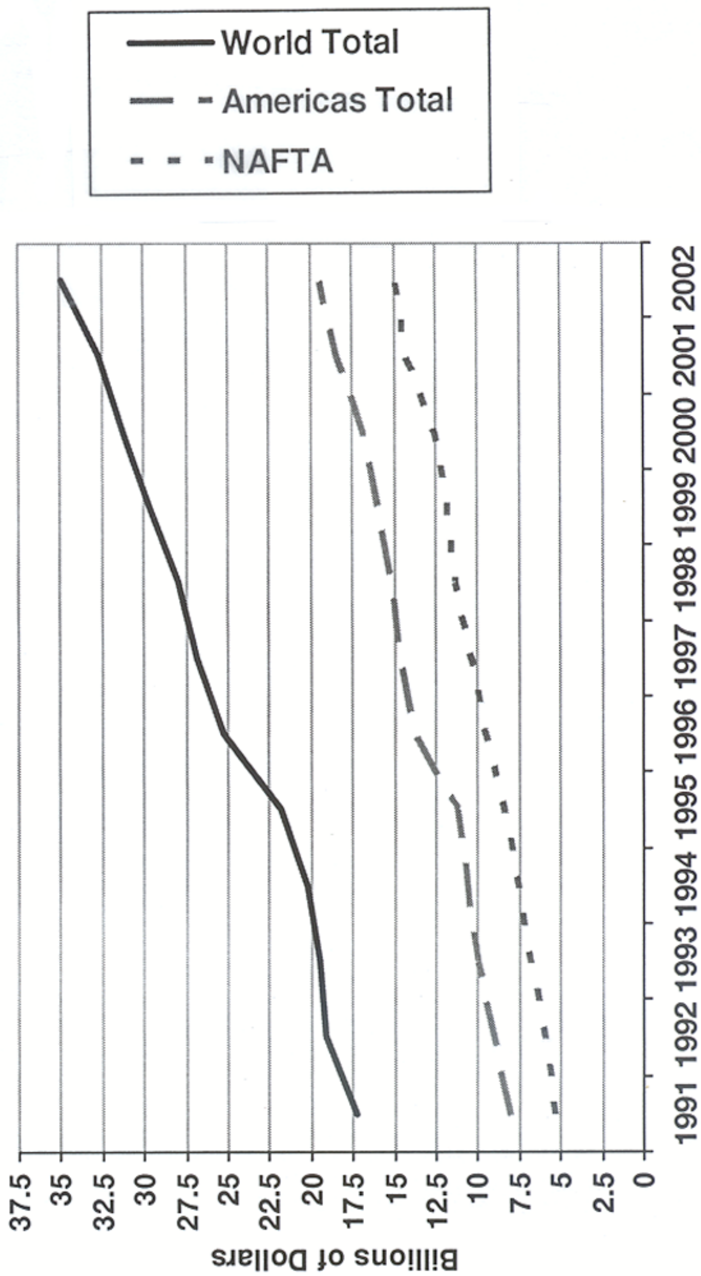
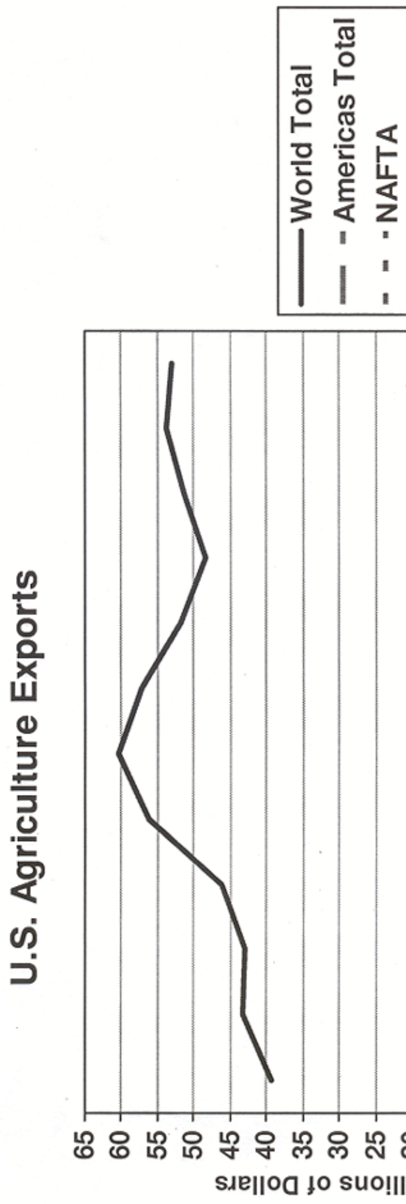


Chart 2



Data Source: USDA/FAS, "Foreign Agricultural Trade of the United States (FATUS)

Senator COLEMAN. Mr. LaVigne, I suspect you already know, but the Senator from Florida would like to hear your full testimony. And with that, you may proceed.

STATEMENT OF ANDREW W. LaVIGNE, EXECUTIVE VICE PRESIDENT AND CEO, FLORIDA CITRUS MUTUAL, LAKELAND, FL

Mr. LAVIGNE. Thank you, Mr. Chairman, and it is something that Senator Nelson is more than aware of, given as many years of representing the industry and especially in one of the key citrus producing areas of the state on the coast. So we appreciate the opportunity to be here today.

I am Andy LaVigne, executive vice president and CEO of Florida Citrus Mutual, and I am pleased to present testimony today on the future economic relations in trade in this hemisphere, which is truly nothing less than the future of the U.S./Florida citrus industry, as well as the world's citrus markets.

With your permission, I will summarize my statement and ask that this whole testimony be accepted into the record.

Senator COLEMAN. Without objection.

Mr. LAVIGNE. Florida Citrus Mutual is a voluntary, cooperative association whose active membership consists of more than 11,000 Florida growers of citrus for processing and fresh consumption. Mutual's membership accounts for more than 90 percent of Florida's citrus growers, and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

The current focus of economic discourse in this hemisphere is on trade agreements, including the Free Trade Area of the Americas, the Central American Free Trade Agreement, the U.S./Chile Free Trade Agreement, and various unilateral trade benefits such as the Andean Trade Preferences Act and the CBI program.

The Florida citrus industry does not object to the improvement of the U.S. ties in this hemisphere through stronger trading relationships. And, in fact, we have supported such programs over the years such as CBI and the Chile agreement.

Our industry, in the global citrus market, are highly unique and import sensitive; not because of any lack of competitiveness, but because of the dynamics in history of this sector. The Florida processed orange industry is the most efficient in the world in production yield per acre. But the simple fact is that any reduction in the current U.S. tariff of orange juice will be both economically damaging and anti-competitive for the world marketplace.

The global orange juice industry is dominated by five large producers in Brazil. The U.S. tariff does not ensure survival, as many of our bankrupt Florida growers can attest, but it counteracts some of the extreme pricing pressure inflicted by frequent devaluations of Brazil's currency, the predatory pricing behavior of the Brazilian orange juice oligopoly, and the sheer market power of a highly concentrated industry selling globally a dollar-denominated commodity made with progressively devalued local inputs. Further, the tariff gives Florida growers a fighting chance to make a living in a country that properly places tremendous value on worker rights and environmental integrity.

The global orange juice industry is, as I said, highly unique. World orange juice consumption is concentrated chiefly among two regions. The United States and the European Union account for roughly 85 percent of world consumption.

Global orange juice production is also concentrated chiefly between two regions. Brazil and the United States account for 85 percent, or roughly 85 percent of world production. Brazil's five large processors control roughly 80 percent of Brazil's orange juice concentrate production, and controls nearly all of Brazil's orange juice exports. Brazil itself exports 99 percent of its orange juice, and consumes less than 1 percent.

The large Brazilian processors benefit from advantages brought by mass subsidization and dumping, lower environmental and labor standards, and frequent national currency devaluation, and oligopoly price manipulation.

Florida orange growers are not the only U.S. agricultural industry pitted against the unfair advantages of Brazil's agricultural exports as you have heard today, Mr. Chairman. However, they are one of the few industries that the U.S. FTAA proposals threatens with their demise. While domestic support programs are used to help level the playing field for agricultural industries whose top markets are abroad, tariffs are used to level the field for industries, like orange juice, whose top markets are in the United States.

The U.S. industry that grows oranges for processing is unique among U.S. agricultural industries in that it does not receive any production or trade distorting domestic subsidies. Its only offsetting tools are the tariff and the enforcement of unfair trade laws.

The administration's FTAA proposal on agriculture is lopsided to the extent that it puts all U.S. agricultural tariffs on the table, while leaving all domestic subsidies off the table. Not only is this an unsound approach to the policy of trade negotiations, it is also guaranteed not to meet any of the stated objectives of trade liberalization by the administration which are increased competition, lower cost to consumers, and increasing living standards.

Any reduction in the U.S. orange juice tariff applying to Brazil would devastate the U.S. industry that grows oranges for processing. Furthermore, any tariff reduction would critically damage the entire citrus industry which has an economic impact on the State of Florida of $9.13 billion in industry output, $4.18 billion in value-added activity, roughly 90,000 jobs, and risks the environmental viability of over 800,000 acres of planted citrus in our state.

The growth closures would jeopardize the existence of all U.S. juice extractors and processors, as well as the upstream of suppliers of U.S. orange juice industry. Since the land in which processing oranges are grown is ideal for producing citrus, there is—the land also has little agricultural value outside of that citrus production, and the volume of all other fruit juices extracted in the U.S. combined pales in comparison to that of orange juice. The upstream industries could not exist if orange juice production were no longer viable.

In addition, because the production of about 75 percent of all processing oranges is concentrated in central and south Florida, entire counties in these regions would be ravaged and their real estate values would tumble as thousands of groves would be abandoned with no practical alternative land utilization.

Perhaps even most damaging to the U.S. economy is the fact that since this Florida industry is Brazil's only competitor of global significance, its demise would not bring cheaper orange juice to the U.S. breakfast table, but would eventually permit the Brazilian oligopoly to raise U.S. orange prices.

For all of these reasons, Florida Citrus Mutual strongly opposes any reduction in U.S. orange juice tariffs under the FTAA or any trade agreement to which Brazil is a party.

I will be pleased to answer any questions, Mr. Chairman.

Senator COLEMAN. Thank you very, very much, Mr. LaVigne.

[The prepared statement of Mr. LaVigne follows:]

PREPARED STATEMENT OF ANDREW W. LAVIGNE, EXECUTIVE VICE PRESIDENT AND CEO, FLORIDA CITRUS MUTUAL

Mr. Chairman and members of the Committee, I am Andy LaVigne, Executive Vice President and CEO of Florida Citrus Mutual. I am pleased to present testimony today on the very critical issue of the future of economic relations in this hemisphere, especially as it relates to the citrus industry and markets. FCM is a voluntary cooperative association whose active membership consists of more than 11,000 Florida growers of citrus for processing and fresh consumption. FCM's membership accounts for more than 90 percent of Florida's citrus growers and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

The current focus of economic discourse in the hemisphere is on trade relations and more specifically, trade agreements, including the Free Trade Area of the Americas, the Central America Free Trade Agreement, the U.S.-Chile Free Trade Agreement, various unilateral trade benefits such as the Andean Trade Preferences and the CBI program. The Florida citrus industry does not object to the improvement of U.S. ties in the hemisphere through stronger trading relationships, and in fact we have supported many such programs over the years, such as the CBI. However, our industry and global market are highly unique and import sensitive—not because of any lack of competitiveness, but because of the dynamics and history of this sector. The Florida processed orange industry is the most efficient in the world in production yield per acre But the simple fact is that any reduction in the current tariff of orange juice will be both economically damaging and anti-competitive.

The U.S. orange juice tariff offers the most efficient Florida orange growers the opportunity to exist as the sole large volume competitor in a global industry dominated by five huge producers in Brazil. The tariff does not ensure survival, as many bankrupt Florida growers can attest, but it counteracts some of the extreme pricing pressure inflicted by frequent devaluations of Brazil's currency, the predatory pricing behavior of the Brazilian orange-juice oligopoly, and the sheer market power of a highly concentrated industry selling globally a dollar denominated commodity made with progressively devalued local inputs. Furthermore, the tariff gives Florida growers a fighting chance to make a living in a country that properly places tremendous value on costly worker rights and environmental integrity, in the face of competition from a country that does not.

The global orange juice industry is highly unique. World orange juice consumption is concentrated chiefly among only 2 regions: the United States and the European Union. Aside from the United States and, to a lesser extent, Canada,[1] there are no other significant orange juice consuming countries in the Western Hemisphere. Thus, the U.S. orange juice industry is not in a position to benefit from FTAA trade liberalization.

Global orange juice production is also concentrated chiefly among only 2 countries: Brazil and the United States. Brazil's production is controlled by 5 very large processors,[2] which control roughly 80 percent of Brazil's FCOJ production. Given that they also operate and control Brazil's tank ship distribution system, these companies indirectly control nearly all of Brazil's FCOJ exports. The large Brazilian processors benefit from advantages brought by past subsidization and dumping, lax en-

[1] The United States already enjoys duty-free access to the Canadian orange juice market.

[2] These dominant Brazilian processors are Cargill Citrus Ltda., Citrosuco Paulista S.A., Citrovita Agro Industrial Ltda., LouisDreyfus Citrus S.A., and Sucocitrico Cutrale Ltda.

vironmental protection, weak and largely unenforced labor laws, frequent national currency devaluation (which reduces the relative cost of production inputs and provides false incentives to overproduce), and oligopoly price manipulation.

Florida orange growers are not the only U.S. agricultural industry pitted against the unfair advantages of Brazil's agricultural exports; however, they are one of the few industries that the U.S. FTAA proposal threatens with demise. U.S. soybean farmers claim that on account of Brazil's currency devaluation, they were receiving 40 percent less for their soybeans in 2002 than in 1997, while Brazilian farmers were receiving over 36 percent more.[3] Brazil is the world's second largest soybean producer after the United States, so this is very significant. However, soybeans are consumed throughout world and new export markets are highly sought after by the U.S. industry. So, it makes sense that the U.S. soybean industry contends with the unfair advantages of Brazil's devaluation chiefly via domestic subsidies. While subsidies are used to help level the playing field for agricultural industries whose top markets are abroad, tariffs are used to level the field for industries, like orange juice, whose top markets are in the United States. The U.S. industry that grows oranges for processing is unique among U.S. agricultural industries in that it does not receive any production or trade distorting (WTO-designated "amber box") domestic subsidies. Its only offsetting tools are the tariff and enforcement of the unfair trade laws.

FCM believes that the Administration's FTAA proposal on agriculture is lopsided to the extent that it puts all U.S. agricultural tariffs on the table, while leaving all domestic subsidies off the table. In so doing, the Administration's proposal effectively, if unwittingly, singles out agricultural industries for demise based exclusively on the location of their markets, without consideration of the effect on the U.S. economy. Not only is an unsound approach to the policy of trade negotiations, it is also guaranteed *not* to meet any of the stated objectives of trade liberalization: foreign industrial growth, lower prices to consumers, and increasing living standards.

FCM asserts that any reduction in the U.S. orange juice tariff applying to Brazil would devastate the U.S. industry that grows oranges for processing. Furthermore, any tariff reduction would critically damage the entire Florida citrus industry, the economic impact of which has recently been estimated at $9.13 billion in industry output, $4.18 billion in value-added activity, and 89,700 jobs.[4] Perhaps even most damaging to the U.S. economy is the fact that, since this Florida industry is Brazil's only competitor of global significance, its demise would not bring cheaper orange juice to the U.S. breakfast table, but would eventually unleash the Brazilian oligopoly to raise U.S. orange juice prices. For all of these reasons, FCM strongly opposes any reduction in U.S. orange juice tariffs under the FTAA or any trade agreement to which Brazil is a party.

U.S. orange juice markets, particularly those throughout the EU, have also been increasingly plagued with Brazilian orange juice prices that appear to be well below their cost of production. During September 2000 through April 2001, the price of bulk Brazilian FCOJ in the EU was often less than $700 per metric ton (including ocean freight). The long-term annual average trend in the price of Brazilian orange juice exports has been downward during the past decade and a half. Such constant downward price pressure in foreign markets makes the exporting of U.S. orange juice nearly impossible. Current levels of U.S. orange juice exports are more a function of the export incentives provided by the import duty drawback program, than of the ability of U.S. producers to earn a fair price in export markets. Even if there existed lucrative orange juice markets in the Western Hemisphere outside of U.S. and Canadian borders, and even if orange juice tariffs were liberalized in these markets, the U.S. orange juice industry would stand little chance of competing with Brazil at these extremely low price levels.

Differences in labor, environmental and health and safety laws are, however, not the only reason why Brazil is able to sell its orange juice at such low prices. The University of Florida recently calculated comparative cost of production estimates for processed oranges in Florida and São Paulo, Brazil. They estimate that in crop year 2000/01 labor costs (including wages, salaries and social taxes) were 450/box

[3] "ASA Emphasizes Importance of Maintaining $5.26 Soybean Loan Rate to Help Offset Effects of Currency Devaluations in Argentina & Brazil," American Soybean Association, January 7, 2002 (http://www.soygrowers.com/newsroom/releases/2002%2Oreleases/rO10702.htm).

[4] Alan Hodges. et al, "Economic Impact of Florida's Citrus Industry, 1999-2000," *Economic Information Report,* EIR 01-2, University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001, p. 3.

in Florida and only 170/box in São Paulo.[5] A substantial portion of this wide discrepancy is due to the many currency devaluations Brazil has experienced during the last few decades.

Brazil's orange juice export sales to all markets are denominated in U.S. dollars. When the Real is devalued, the cost of labor and other domestic production inputs, which are denominated in Real, become cheaper relative to the price paid for the orange juice. The cost of grove labor as a percentage of the export price of Brazilian orange juice shrinks each time the Brazilian Real loses value against the U.S. dollar, thus, increasing the profit margin obtained by the Brazilian processor. The increase in profits then sends false market signals throughout the Brazilian citrus industry causing it to overplant and overproduce. The overproduction gives way to lowered international orange juice prices, which reduce the value of Florida's processing oranges and diminish growers' profits. However, further devaluation prevents the Brazilian industry from feeling the squeeze of lower international prices, and the cycle continues. This is just one more way the developed Brazilian orange juice oligopoly is able to benefit from residing in a country with an underdeveloped and inflationary economy.

In an ideal free market world economy where basic and equivalent labor, environmental, and health/safety laws exist and are enforced, where world production and prices are not controlled by a single oligopolistic industry, and where currency devaluations do not tip the scales dramatically in favor of the foreign exporters, the law of natural advantages might outweigh arguments for tariff protection. However, Brazil's advantages are not "natural" and the playing field is grossly skewed. The tariff is the only offset on which this unsubsidized U.S. industry can rely to counter these "unnatural" advantages.

If U.S. orange juice tariffs are reduced or eliminated, the price of U.S. imports of bulk FCOJ from Brazil, as well as the futures contract prices of FCOJ and the U.S. wholesale price of orange juice, would fall rapidly. At the same time, the volume of U.S. FCOJ imports from Brazil would increase significantly. The supply of U.S. juice oranges and orange juice, however, would remain constant in the short term, as they are not responsive to price.

It is important to understand that the U.S. supply of juice oranges is highly inelastic, because they are a natural, perishable product whose supplies are primarily dictated by the number of productive citrus trees in the United States, air temperature, amount of rainfall, and citrus tree diseases. Capacity utilization in citrus groves is always near 100 percent, because all wholesome citrus fruit is picked. Since it takes at least 4-5 years for an orange tree to begin bearing fruit and 25 years for it to stop bearing fruit, supplies cannot be manipulated in the short-run in response to price. Thus, given the inability of orange supplies to respond to juice prices, the U.S. on-tree price of juice oranges would immediately plummet and, in turn, cause grower rates of return to fall well below the break-even point, resulting in widespread grove closures.

The grove closures would leave unemployed over 42,000 citrus grove workers in Florida alone, and jeopardize the existence of all U.S. juice extractors and processors that depend on domestic citrus. It would also have grave consequences for the following upstream suppliers of the U.S. juice orange industry:

- nurseries that supply replacement trees to citrus groves,
- suppliers of fertilizer, fungicide, herbicide and insecticide to citrus groves,
- suppliers of irrigation and spraying systems, mechanical harvesters and farm implements,
- financial institutions, especially merchant banks that have citrus exposure,
- insurance companies that serve the citrus industry, and
- freight companies that haul citrus to processing plants.

Since the land on which processing oranges are grown consists of very sandy soil with little agricultural value outside of citrus production, and the volume of all other fruit juices extracted in the United States combined pales in comparison to orange juice, the above upstream industries could not exist if orange juice production were no longer viable. In addition, because the production of about 75 percent of all processing oranges is concentrated in Central and South Florida, entire counties in these regions would be ravaged and their real estate values would tumble

[5] "Cost for Processed Oranges: A Comparison of Florida and São Paulo," Ronald P. Muraro and Thomas H. Spreen, IFAS, The University of Florida, presented at the Florida Citrus Industry Economics Meeting, July 8-9, 2002.

as thousands of groves would be abandoned, with no practical alternative land utilization.

ECONOMIC EFFECTS ON THE CONSUMER

Aside from the impact of unrestrained orange juice imports on the U.S. orange growing industry, the most highly touted benefit of free trade agreements—lower prices to consumers—would not be realized in the case of orange juice. Increasingly, the price of retail orange juice has not tracked the declines in processing orange prices nor the declines in wholesale and futures prices of FCOJ. On the contrary, retail prices have skyrocketed while processing orange and FCOJ prices have collapsed. What has happened is that orange juice retailers are charging the final consumer what the market will bear, which is apparently higher and higher each year, while the processors, reprocessors, and blenders, who buy their raw materials (FCOJ from Brazil or processing oranges from Florida growers) at plunging prices, all share in pocketing the significant juice mark-up. This pricing situation benefits the oligopolistic Brazilian processors twofold because 1) they now own some of the processors in the United States that are benefiting from the mark-up, and 2) their low-priced FCOJ exports to the United States depress the prices received by U.S. growers thus forcing many of them out of business and expanding the Brazilian processors' control over world orange juice supplies and prices.

Should U.S. tariffs on orange juice from Brazil be reduced or eliminated, this situation would be exacerbated, as the U.S. processors, reprocessors and blenders—the first consumers of imported orange juice—would reap the benefits of tariff reduction, while Florida growers of processing oranges would take a heavy hit. The final consumers of the imported orange juice would never see the price break supposedly derived from the tariff reduction. However, as the Brazilian processors amass greater and greater global market power, U.S. final consumers would eventually suffer the consequences of unrestrained orange juice prices.

In order to get a glimpse of the likely impact of tariff reductions in the market, one need only look at the record of bulk juice prices, returns to growers, and prices to consumers over the past ten years. As the U.S. tariff decline of 15% was forced on the market under the Uruguay Round Agreements, the global bulk juice price and average return to Florida growers declined steadily over that time, while the price of the finished product to consumers rose, seemingly disconnected from those underlying factors. The reason is that a dramatically concentrated global industry with almost limitless cheap resources will take full advantage of any declining constraint on its power represented by tariff cuts, to minimize its competition and maximize its profits, at the expense of consumers.

It must be understood that the U.S. citrus tariff is the only form of "assistance" U.S. orange growers receive, and it costs U.S. taxpayers nothing. Furthermore, because most duties paid on U.S. orange juice imports from Brazil are subject to duty drawback, the Brazilian processors effectively pay only about $1.5 million, or 2.3 percent ad valorem, in orange juice duties.[6] At the same time, non-citrus U.S. agriculture is now receiving over $20 billion annually in direct government payments.[7]

It is by no means true that the United States has the highest agricultural tariffs in the hemisphere. According the FTAA Hemispheric Database, the following figures represent the percentages of tariff lines in each country's tariff schedule that have duties equivalent to 10 percent ad valorem or above:[8]

Brazil 68%
Argentina 67%
Venezuela 66%
Colombia 63%

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[6] Estimated by FCM based on the assumption that duties are drawn back on an amount of FCOJ imports from Brazil equal to 90 percent of U.S. FCOJ exports. In 2002, U.S. domestic exports of bulk FCOJ (2009.11.0060) were 441,664,083 liters. If we assume that 90 percent of these exports resulted in drawback, then import duties were drawn back on 397,497,675 liters of imports. In 2002, the import duty was 7.85 cents/liter. Since 99 percent of import duties are drawn back, the amount of duties drawn back on 397,497,675 liters of imports would have been $30,891,532. In 2002, 411,577,471 liters (valued at $61,658,753) of bulk FCOJ were imported from Brazil, and $32,308,827 in duties were collected on these imports. So, post-drawback, U.S. Customs netted only about $1,417,295 ($32,308,827-$30,891,532) in duties on Brazilian bulk FCOJ during 2002. This means that the tariff really only cost U.S. importers .34 cent/liter ($1,4l7,295/411,577,471 liters), which equals only 2.3% ad valorem ($1,417,295/$61,658,753) in 2002.

[7] "Farm Income and Costs," Direct Government Payments, ERS, USDA (http://www.ers.usda.gov/briefing/farmincome/data/GP—T7.htm).

[8] FTAA Hemispheric Database online at http://198.186.239.122/chooser.asp?Idioma=Ing.

United States 11%

CONCLUSION

The U.S. market is by far the most significant market we have. Unlike dairy and crop commodities, which are consumed throughout the world, orange juice is consumed primarily in the highly developed market economies of the United States and Europe. With Brazilian juice firmly entrenched in Europe at rock bottom prices, it only makes sense to concentrate on sales at home. Our growth in exports of specialty products, such as NFC, must necessarily be incremental and secondary to the domestic market for FCOJ. While the Florida industry will continue to seek out new export markets, both for fresh and processed products, it is myopic to think that we are likely to be as large a factor in foreign markets as Brazil. We simply do not have the domestic subsidies we would need to compete with the Brazilians and Europeans in Europe. Furthermore, we cannot be there to develop those new foreign markets slowly over the many years it will take them to achieve higher disposable incomes, if the Florida industry is forced out of existence by the elimination of the tariff. We want to serve the U.S. market and we can do so without the huge government payments that other agricultural sectors receive. However, the U.S. orange juice tariff is necessary to offset the unfair or artificial advantages that lower the price of Brazilian juice.

Florida Citrus Mutual understands that free trade in many industries, including many agricultural industries, leads to increased competition, eventual price benefits to consumers, and overall global economic growth. Unfortunately, free trade cannot deliver these rewards to such a concentrated and polarized global industry, especially one in which the developing country's industry is, in fact, already the most highly developed in the world. Florida Citrus Mutual appreciates the opportunity to explain to the subcommittee the unique global structure of the orange juice industry and the negative economic effects that would occur as a result of U.S. tariff reduction or elimination.

I will be pleased to answer any questions.

Senator COLEMAN. Mr. Suber.

STATEMENT OF TOM SUBER, PRESIDENT, U.S. DAIRY EXPORT COUNCIL, ARLINGTON, VA

Mr. SUBER. Mr. Chairman, I am Tom Suber, president of the U.S. Dairy Export Council. My testimony today will provide the dairy industry's perspective on your topic of the future U.S. economic relations in the Western Hemisphere: challenge and opportunities for American agriculture.

U.S. DEC represents the export interests of U.S. milk producers, dairy cooperatives, proprietary processors, and trading companies. America's dairy industry is the country's second largest agricultural sector and provides a livelihood for 80,000 dairy farmers in every state of the union. Dairy's impact on the economy is compounded by our processors who turn milk into cheese, ice cream, butter, and milk powder.

Last year, the United States exported over $1 billion in dairy products; the third consecutive year, the industry exceeded that significant benchmark. That number could be even larger if not for the price depressing export subsidies and high market access barriers of our competitors.

Our dairy industry supports all U.S. trade initiatives currently underway within the hemisphere. We base this on the substantial benefits obtained from NAFTA, despite Canada's exclusion of its dairy industry from that agreement. Increased access to Mexico dairy market, even though full access to that milk powder market will not happen until 2008, has increased our market share and volumes that we can sell commercially without government subsidies.

The dairy industry also supports the recent introduction of Senate bill 403 which would remove existing trading and traveling impediments to Cuba.

I will focus my comments on the FTAA as an indicator of the opportunities and threats increased regional trade presents. Despite the greater competition we would face, the U.S. dairy industry would gain from a balanced and comprehensive FTAA. We base that assessment on a substantial net imports of dairy products within the hemisphere and the strong role dairy products play in regional diets. We believe long-term growth and consumption will come from the per capita income growth that more open trade brings over time. U.S. dairy products have already enjoyed some success in penetrating Caribbean and Latin American markets in the face of massive European export subsidies and often predatory pricing of imports from Oceania. More open market access will only accelerate this trend.

The Council supports the U.S. goal for facilitating hemispheric integration through trade. The challenge will be to negotiate an agreement that removes barriers within the hemisphere but does not, as a consequence, leave the U.S. dairy industry vulnerable to the inequities that would remain in world dairy trade.

Of particular importance are the issues of rules of origin, third party export subsidies, and the full inclusion of Canada. It is fundamental in a regional trade agreement that economic benefits accrue exclusively to its participants. As a result, our firm objective is to assure that FTAA establishes strict rules of origin. The United States is one of the most attractive dairy markets in the world due to its high consumption and relatively high domestic price. Without strict rules of origin, we can be sure non-party countries will try to ship their dairy products through a participating country.

NAFTA rules of origin appear to have effectively restricted transhipments through Mexico, and we believe that similar rules of origin were adopted for the FTA with Chile, and must be included in the FTAA.

FTAA negotiations must also address the issue of export subsidies. The U.S. dairy industry is prepared to cede its export subsidies only if we can ensure that our trading parties do not accept subsidized product from others. If Brazil, for example, accepts subsidized products from Europe while we have traded away the ability to use our DEIP program, the U.S. would be at a serious competitive disadvantage.

Finally, and most importantly, the Canadian dairy industry must participate fully in any hemispheric trade integration. The U.S. dairy industry is united in agreement that failing to bring Canada fully on board would substantially nullify any perspective net gains for America's dairy industry. In the U.S./Canada FTA, in NAFTA, and in its recent trade agreements with Chile and Costa Rica, Canada has successfully kept dairy off the bargaining table. In fact, in 1998, an analysis of the FTAA by our own USDA's economic research service, used an economic model that inexplicably assumed that Canada would again successfully exempt its dairy industry from that agreement.

Therefore, the real challenge for our negotiators will be finding a way to bring Canada and Canada's dairy industry into the agreement. If Canada succeeds in excluding its dairy sector, U.S. dairy industry will find little reason to support the FTAA.

In conclusion, we support all U.S. Western Hemispheric trade expansion initiatives currently underway. The NAFTA agreement with Mexico has substantially benefited the U.S. dairy industry, and further benefits would accrue from wider agreements such as the FTAA. But a flawed FTAA could severely damage our industry. Therefore, to achieve dairy industry support, the FTAA must incorporate strict rules of origin, surrender the use of U.S. export subsidies within the region only if our regional partners refuse to accept subsidized products from the outside, and finally, ensure that the Canadian dairy industry is fully obligated to participate in all trade integration moves.

Thank you for your invitation, Mr. Chairman, to present the dairy industry's views.

Senator COLEMAN. Thank you very much, Mr. Suber.

[The prepared statement of Mr. Suber follows:]

PREPARED STATEMENT OF THOMAS M. SUBER, PRESIDENT, U.S. DAIRY EXPORT COUNCIL

Mr. Chairman and members of the Subcommittee, I am Tom Suber, president of the U.S. Dairy Export Council (USDEC). I am pleased to appear before you today to testify on the topic of "The Future of U.S. Economic Relations in the Western Hemisphere: Challenges and Opportunities for American Agriculture."

The U.S. Dairy Export Council is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, dairy cooperatives, proprietary processors, export traders and their allied industry suppliers. Its sole mission is to increase the volume and value of U.S. dairy product exports. USDEC maintains representative offices in Mexico City, Sao Paulo, Tokyo, Seoul, Hong Kong, Shanghai, Bangkok, Taipei, London and Lebanon to assist U.S. exporters and their customers. The Council receives the majority of its funds from Dairy Management, Inc., the organization responsible for managing the national farmer-funded dairy promotional assessment known as the dairy check-off. The export market promotion programs of USDA's Foreign Agricultural Service provide the Council's second highest source of revenue, followed by the annual dues of our 60 members.

America's dairy industry is the second largest agricultural commodity sector in the United States, measured by farm cash receipts. The 80,000 U.S. dairy farmers live in every state of the Union, from Minnesota to Louisiana, and Vermont to California. Dairy is one of the top three agricultural sectors in fully half the states, and almost two-thirds of the members of the House hail from a "dairy" state.

Impressive as those numbers are, they represent only the milk *producer* side of the industry. Dairy *processors,* the companies that process milk into yogurt, cheese, ice cream and milk powder, add additional strength and nationwide employment to the industry's impact as a whole on the country's economy. In addition, our ability to increase milk production is limited only by demand, both domestic and international. Our ability to access and develop new markets is critical to the industry and to the overall rural economy.

Internationally, the U.S. is the world's largest single country producer of cow's milk. In 2002 the U.S. exported over $1 billion in assorted dairy products, the third consecutive year the industry exceeded that significant export benchmark. While that's an impressive number, it could be even larger if not for the price depressing export subsidies and high market access barriers of our competitors.

THE U.S. RELATIONS WITHIN THE WESTERN HEMISPHERE—WHAT ARE OUR OPPORTUNITIES?

The U.S. dairy industry supports all trade initiatives currently underway within the Hemisphere. Our members—processors, producers, and trading companies—are especially interested in the Free Trade Area of the Americas (FTAA) and the Central America Free Trade Agreement (CAFTA). The dairy industry also supports the recent introduction of S403, which would remove existing trading and travel impediments to Cuba. For the sake of simplicity, I will focus my comments on the FTAA as an indicator of the opportunities and threats that increased regional trade presents.

The Council believes that such trade initiatives within the Hemisphere are long overdue, as history shows we have lost ground to our trade competitors who aggressively pursued and continue to pursue such activities. For years, the United States has failed to profit from the potential economic benefits that would arise from greater trade links with the Western Hemisphere countries.

Although growing, U.S. dairy exports to Latin America—excluding Mexico—are relatively small. In 2002, we shipped $92 million of product into the region, or 9% of our total exports. This compares with the $309 million, or 30.3%, that goes to Mexico and Japan. In fact, despite our advantageous geographic proximity, EU dairy shipments into the region (again, excluding Mexico) amount to just under $400 million, more than four times those of the U.S. This extreme imbalance stems from two sources. One is the EU's use of massive export subsidies to buy control of the market. The other is the use of special trading relationships that have built up over time. In addition to the EU's overpowering presence, dairy shipments to this region from Australia and New Zealand amounting to about another $400 million also present an opportunity to tap existing demand by creating closer trading relationships.

The potential for export growth is enormous. Every Latin American country except Argentina, Uruguay, Costa Rica and Nicaragua is a net importer of dairy products. Of these exceptions, only the first two generate significant exportable surpluses. The region as a whole imports three-and-a-half times as much dairy products as it exports. And the United States produces more milk, cheese, milk powder, whey and lactose than the other combined 34 countries in the hemisphere.

Latin America imports in excess of $2.2 billion worth of dairy products every year. The eleven largest countries import the milk equivalent of more than 13 billion pounds of milk annually—more milk than is produced in the states of Indiana and Minnesota in a year.

Total cheese imports for Latin America approach a quarter of a billion pounds a year, more than a month's output from Wisconsin, the largest U.S. cheese producing state. Latin America imports more than a billion pounds of milk powder annually, and buys more than 150 million pounds a year of whey proteins. These are significant numbers.

The middle and upper-middle classes are growing throughout Latin America—in Brazil, Peru and Chile in particular. Consumers with more disposable income are brand-conscious. They are interested in quality dairy products—a trait they strongly associate with the U.S., especially cheese and ice cream.

For example, despite being a sizeable milk-producing country, Brazilian consumers have a particular appetite for high-quality American products such as mozzarella and cream cheese. Meanwhile, in Peru, Colombia and Venezuela, food manufacturers use large amounts of U.S. dairy ingredients, including whey and milk powders. Additionally, the Caribbean islands, with their close proximity and high dependence on tourism, are attractive markets for high-value U.S. cheeses.

More importantly, Canada, our largest trading partner, with whom the United States has concluded trade agreements in the recent past, will be a significant market should an FTAA eliminate their tariffs on U.S. cheese (245 percent), butter (300 percent) and tight quotas on other U.S. dairy products.

Existing measures of per-capita consumption illustrate the potential demand for U.S. dairy products in a more open hemispheric trade environment. Annual dairy consumption in South America (excluding the large production bases in Argentina and Uruguay) averages 229 pounds per year. In Central America and the Caribbean, the average is 192 pounds. It is unrealistic to expect these countries to quickly achieve the levels of consumption in the United States and Canada, both around 585 pounds per year. However, it is realistic to see continuing growth as per capita incomes rise and begin to drive consumption to the levels that exist in Turkey, Pakistan or Russia (respectively, 321, 403 and 520 pounds per year). After all, Latin Americans use dairy products widely in their local diets and cuisine. Unlike Asian countries, where dairy products are rapidly building familiarity among non-traditional consumers, increased dairy demand by Latin American consumers is much more a matter of increased income and wealth, both factors that increased trade will foster.

We know we can improve our market position with respect to exports to the Hemisphere. The current trade imbalance with the EU and Oceania results from their heavy subsidies and product dumping, respectively, as well as on preferential treatment and long term relationships. We know we can change that, given the right tools. As an example, look at the development of U.S. dairy exports resulting from the initiation of NAFTA. Since 1995, when the NAFTA tariff advantage began its phase-in, exports of unsubsidized U.S. dairy products have jumped sharply. U.S. cheese exports have grown at an average annual rate of almost 6%, to the point where Mexico is now the largest destination for all U.S. cheese exports. Exports of whey products to Mexico have grown annually by 6.6%, ice cream by 1.1%, and lactose by 3%.

WHAT ARE THE CHALLENGES?—CRITICAL ISSUES FOR THE U.S. DAIRY INDUSTRY

The Council supports the U.S. goal of facilitating the process of ongoing hemispheric integration through trade. Furthermore, we support elimination of most, if not all, tariff and non-tariff barriers from the Arctic Circle to Tierra del Fuego, just as the North American Free Trade Agreement (NAFTA) has sought to do with the United States, Canada and Mexico.

The challenge will rest on negotiating an agreement that removes barriers within the hemisphere, but doesn't, as a consequence, leave the U.S. dairy industry vulnerable to the trade inequities that will remain in world dairy trade. Of particular importance to a balanced dairy sector agreement are the issues of rules of origin, third party export subsidies and the full inclusion of Canada.

RULES OF ORIGIN

A fundamental concept of a regional trade agreement dictates that economic benefits accrue exclusively to the countries within the region. Consequently, the domestic industry's first and foremost objective is establishment of specific *rules of origin* that ensure dairy trade benefits only the signatory countries. The United States is one of the most attractive dairy markets in the world, due to its high consumption, interest in top quality, innovative products and high domestic price. Consequently, dairy suppliers from around the world continually explore ways to expand their shipments to the U.S.

Milk's versatility creates the opportunity for that expansion by its great variety of tradable products—almost 400 individual tariff lines of the HTSUS include significant proportions of milk and dairy components. In the absence of appropriate rules of origin, it will no doubt be tempting for non-party countries to attempt to transship their dairy products through participating countries.

It is therefore extremely important to ensure that economic integration via the FTAA is restricted to dairy products produced from milk and dairy ingredients that originate solely from countries in the Hemisphere. The North American Free Trade Agreement (NAFTA) contains rules of origin for dairy products that effectively restrict transshipments through Mexico. In effect, NAFTA dictates that the milk or dairy product must come from a Mexican or American cow to gain NAFTA treatment. Products imported from outside the region must undergo a specific and substantial processing transformation to qualify for duty-free movement. Similar rules of origin were adopted for the FTA with Chile and must be included in the FTAA.

THIRD PARTY EXPORT SUBSIDIES

FTAA negotiations must address another key issue, that of export subsidies. The United States dairy industry is prepared to dismantle its export subsidies directed to markets in the Western Hemisphere only if we can ensure that our trading partners do not accept subsidized product from outside the hemisphere. If Brazil, for example, accepts subsidized product from the EU, while we trade away the ability to use our own Dairy Export Incentive Program (DEIP) to meet that subsidized competition, it will put us at a serious competitive disadvantage.

Over the past four years, the European Union provided an average of $1.44 billion dollars a year in dairy export subsidies, compared with an annual average of $91 million for the United States. In its most recent report to the WTO, the EU reported spending *more than 100 times* what the United States spent—$955 million versus $9 million. Further, in recent years subsidized dairy exports from Europe to all destinations totaled more than three times the total volume of butter imported by all Latin American nations, and approximately twice the total volume of all Latin American imports of cheese, skim milk powder and whole milk powder.

It is critical, therefore, that nations in the Americas agree not to accept subsidized dairy imports from outside the hemisphere if the United States is required not to subsidize products to compete in markets within the Hemisphere. In the absence of such provisions, a U.S. agreement not to subsidize into regional markets will effectively deny the United States substantial gains from closer trade relations.

CANADA AS A TRUE PARTNER WITHIN AN INTEGRATED WESTERN HEMISPHERE

Finally, but most importantly, for the U.S. dairy industry the true economic value of Western Hemisphere trade cooperation is the inclusion of the Canadian dairy industry in any form of economic or trade integration. The U.S. dairy industry is united in agreement that a failure to bring Canada on board would substantially nullify any prospective net gains to closer regional integration.

In the U.S.-Canada FTA, in NAFTA and in its recent trade agreements with Chile and Costa Rica, Canada successfully kept dairy off the bargaining table in order to preserve its supply-management regime. The real challenge for FTAA negotiators will be to find a way to bring the Canadian dairy industry into the agreement. If Canada succeeds in excluding its dairy sector, the U.S. dairy industry would find little reason to support an FTAA.

ECONOMIC IMPACTS OF A POTENTIAL FREE TRADE OF THE AMERICAS

We believe that the overall, economic net benefits to the U.S. dairy industry from an FTAA agreement that adequately addresses the issues discussed above would be positive. However, if negotiations do not properly address any one of these issues, then the net benefits to the industry would be at best negligible and at worst would have a seriously negative impact.

In a 1998 analysis, USDA's Economic Research Service (ERS) used an economic model to examine the impacts of a FTAA on individual U.S. agricultural commodity sectors. For dairy, the ERS analysis *inexplicably* assumed that Canada would successfully exempt its dairy industry from the agreement, commenting only, "Barring changes in the conditions agreed to in the CFTA/NAFTA and the Uruguay Round, U.S. access to Canadian dairy markets will remain limited."

Using this assumption, and assuming as well that non-parties would not exploit or benefit from weak rules of origin and that third-party export subsidies were not an issue, the analysis concluded that, "dairy trade is unlikely to be significantly affected by an FTAA."

On the positive side, the report concluded that U.S. dairy exports could displace some Argentine exports to Brazil, if the United States received the same free access to the Brazilian market that Argentina already has under the MERCOSUR agreement. In addition, the report noted, some expansion in markets in Central America is possible, if tariffs were eliminated. On the negative side, U.S. imports from Argentina could expand. Trade with our largest hemispheric trading partner, Mexico, will not likely be affected because U.S.-Mexico bilateral trade will already be free under the NAFTA, and most dairy exporting nations in South and Central America will have concluded bilateral free trade agreements with Mexico.

If the assumptions outlined in the report are part of the final FTAA, we agree with this scenario and analysis. Partly, it shows that while we may see some rise in imports, our export potential could far exceed the prospective imports. More importantly, it illustrates the tremendous importance for our industry of addressing the issues we have raised.

Lax FTAA rules of origin that permit transshipment of externally-produced dairy components into the U.S. market via FTAA partners would have a significant negative impact. The National Milk Producers Federation estimates that the quantity of these additional imports—above and beyond those that truly originate from FTAA members—could equal as much as 4 billion pounds per year, on a milk equivalent basis, following full FTAA implementation. This approximates the increase in total U.S. dairy imports resulting from the Uruguay Round agreement market access concessions, but without the roughly equivalent, and offsetting, growth in U.S. dairy exports the multilateral trade agreement also provided.

The abuse of rules of origin could lower milk prices received by U.S. producers by an average $.60 per hundredweight. Gross dairy farm revenues would drop by as much as $1.2 billion per year. Domestic dairy processors would also encounter substantial increased competition from imported dairy products such as cheese, evaporated milk, milk powder and butter, competition that would negatively affect employment and capital investment.

Similarly, if the FTAA provisions permit third parties to continue to use export subsidies to supply artificially cheap dairy products to FTAA members, then the potential growth in U.S. dairy exports to Brazil and Central America would likely not materialize. This would remove one of the counterweights to a probable increase of U.S. dairy imports from Argentina and Uruguay.

Today, Canada prohibits the importation of raw milk and commercial shipments of processed fluid milk products. It permits packaged fluid milk imports only as cross-border purchases by consumers for personal use only, and subject to a tariff-rate quota. Canada also imposes tariff-rate quotas on cream, concentrated milk, yogurt, buttermilk, whey powder, butter, cheese, ice cream, dairy ingredients and food preparations containing dairy components.

Including Canada's dairy industry in the FTAA would remove the prohibition on importation of raw milk and commercial packaged fluid milk. Among FTAA members, the United States would be the sole beneficiary of this liberalized access to the Canadian market. The United States would also probably be the major beneficiary of eliminating Canada's TRQs on dairy products. At the same time, the U.S. market would likely bear the biggest burden of any expanded dairy exports from Canada after regional market access barriers are removed.

Following full implementation of the FTAA, we estimate that the United States would gain net dairy trade into Canada amounting to about 5 percent of Canada's commercial dairy market, equivalent to about 1 billion pounds of milk. This would boost milk prices received by U.S. producers by about $.15 per hundredweight and would increase gross revenues received by U.S. dairy farmers by over $300 million per year.

CONCLUSION

In conclusion, the USDA/ERS analysis, combined with other industry estimates, indicates that the economic outcomes for the U.S. dairy industry from the FTAA could vary widely. Results could range from a loss for U.S. dairy producers of well over one billion dollars annually from a badly flawed agreement to a gain of over 300 million dollars per year from an agreement that fully addresses the issues and concerns we have raised in this testimony. The devil is truly in the details, and the support—or opposition—of our industry depends on the specifics of the agreement negotiated. We look forward to working with U.S. negotiators to achieve a good agreement for the FTAA and for the U.S. dairy industry, one that we would enthusiastically support.

Thank you for your invitation to present the dairy industry's views.

Senator COLEMAN. I have heard it said that if—well, I have seen by experience that if you gather five farmers together, I typically get six opinions. We have got five various farm groups and perspectives here, and I appreciate the diversity and perspective.

I am going to turn to my distinguished colleague, the Senator from Florida for his round of questioning. Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman.

I do not know if all of you know that three of you represent major industries in our state. Certainly, citrus, that everybody is familiar with, also dairy. We have a major dairy industry in our state. And you might be surprised to know, beef. Florida, I do not know the ranking, but it is exceptionally high among all the 50 states in beef production. And you are looking at a fellow who grew up on a beef ranch. Santa Gertrudis beef cattle was what I raised as my 4-H Club project.

Let me nail down for the record if I may, Mr. Chairman, some of the testimony of Mr. LaVigne so that as we approach this FTAA, it will just crystallize and underscore some of the things that he has testified to. I am given to believe that your testimony said that 85 percent of the entire world production of concentrated orange juice comes from Brazil and Florida.

Mr. LAVIGNE. That is correct, Senator.

Senator NELSON. And about—so 15 percent of the rest of the entire world production, of concentrate—is that frozen concentrate? That is what we typically think of as concentrate.

Mr. LAVIGNE. Yes. It is orange juice. Typically, most of that will go to concentrate. Some will be for the not from concentrate.

Senator NELSON. Now of that 85 percent, is it approximately 50 percent of the world production comes from Brazil?

Mr. LAVIGNE. Brazil has a little higher percent of that. They have about 45 percent of the 80, and the U.S., depending on crop size—obviously it is like any other commodity, we are back and forth between 35 percent, but it gets up to the 85 percent every year. And the rest is made up by the Caribbean countries which currently under CBI have no tariff, Mexico, whose tariff will go away in 2008, and then other producing regions of the world who produce for the fresh market place, but they are fresh product that cannot be marketed because of appearance, or over maturity, or under maturity, goes into processing as eliminations.

Senator NELSON. So, your testimony is that 45 percent of the world production of concentrated orange juice comes from Brazil.

Mr. LAVIGNE. That is correct.

Senator NELSON. Now the remaining 35 or 40 percent of the world production, that is primarily the domestic U.S. consumption, is that correct?

Mr. LAVIGNE. Primarily, Senator, again depending on the production in Florida each year, it will bring in a little bit more, a little bit less from Brazil. But principally, almost all used domestically.

Senator NELSON. And most of that domestic consumption of concentrated orange juice, most of that is produced in Florida.

Mr. LAVIGNE. That is correct.

Senator NELSON. So here we have two major world producers, namely Florida and Brazil, and Florida's production goes to the U.S. market and Brazil is coming into the U.S. market as well, as well as the rest of the world.

Mr. LAVIGNE. Yes.

Senator NELSON. Now, Mr. Chairman, the advantages of free trade are that we can produce goods, commodities, foodstuffs most efficiently in the economic system by getting competition and getting where products are produced most efficiently and, therefore, most cheaply for the consumer.

The difference with frozen concentrated orange juice is that whereas the parity is now in balance with a tariff that protects Florida's and United States' growers, if that goes away, Brazil is going to become a monopoly, not a competitor. And that is exactly the opposite with what we want to achieve with free trade. It would become a monopoly—you tell me if this is right—because as you testified, there are about five growers that produce most of the production of Brazil.

Mr. LAVIGNE. Yes.

Senator NELSON. And virtually 99 percent of all Brazil's production is exported.

Mr. LAVIGNE. That is correct.

Senator NELSON. And so you have not a competition, but you have a series of cartels in production that certainly are going to have less growers' costs. And if there's not a differential with the tariff, what, in your opinion and state it for the record, is going to occur to the domestic U.S. production?

Mr. LAVIGNE. We believe that the domestic U.S. production would experience a 20 percent—as the University of Florida Institute of Food and Agricultural Sciences has said, a 20 percent reduction in return to growers. That essentially brings you down either 5 to 10 cents a pound solid below the cost of production in the State of Florida. So immediately, whether we do a phase tariff reduction or long-term reduction of the tariff, or elimination of the tariff, what you do is you start to devalue real-estate for groves. You start to lose tax income to counties, and growers start to look for other alternatives. And in Florida, other alternatives are either abandoning your land or trying to find development rights.

Senator NELSON. OK. Now what does it do to the consumer?

Mr. LAVIGNE. Well, for the consumer, it is like any cartel that we experience in this country or in the world, it is at the whim of whoever controls the supply. So immediately, we know that that supply is at the control of the people who deliver the product to the consumer. And we think that does not benefit the consumer, and prices will likely increase to the consumer on this commodity.

Senator NELSON. So if there is not a parity held by a tariff, Brazil has a lower price; it drives the Florida and U.S. producers out of business; Brazil then takes over virtually the entire market. And once it has the monopoly, then what monopolists can do is they can start jacking up their price.

Mr. LAVIGNE. That is true. And you see in the oligopolistic situations where they put such pressure on the marketplace that you put the growers out of business, and rock bottom prices for farm lands as we have seen across this land, people pick them up. And where the Brazilians already control 50 percent of the processing in Florida, they will control 50 percent of the production because they will buy growers' lands at huge losses to growers, or back from the banks or the insurance companies, or other people who have to take them because those growers will be out of business and it will no longer be a U.S. industry.

Senator NELSON. Is there much orange juice concentrate produced in Texas?

Mr. LAVIGNE. Again, theirs is elimination, Senator. Whenever they produce fresh product for the marketplace, it does not meet the grade for the market. It goes to the processing plant, but it is not produced for that purpose.

Senator NELSON. So maybe that is why The White House does not understand the fact of what in wanting free trade and the advantages for consumers of free trade, that they do not understand that this is exactly the reverse. This is going to create a monopoly.

Mr. LAVIGNE. That is correct. In our discussions with the administration, we do not feel that reducing or eliminating the tariff will reach their goals of free trade at all.

Senator NELSON. Tell me, do you see any changes in the administration's attitude since they would not even hear of the amendment that Senator Graham and I were trying to put on the trade bill last year? Has there been any change in their attitude?

Mr. LAVIGNE. Senator, they have been—I would say they have been open in listening to our discussion and listening to our concerns. I think as we have heard today from Ambassador Johnson, everything is on the table. If they begin to take anything off the table, that begins to landslide.

They are well aware of where we are coming from, and the concerns, and the unique nature of our industry in the State of Florida and the unique nature of the State of Florida in the overall big picture. So I think they have been receptive in various meetings that we have been sitting in on, but it is a long process that we have to looking to forward to.

Senator NELSON. And how many years down the road do we expect the first attempts at reducing the tariffs?

Mr. LAVIGNE. Well, if it follows the schedule, it would be—the agreement would be signed sometime in 2005 or early 2006. And depending on—if it is under FTAA, we are in the fourth basket. You are looking at, you know, a phaseout of some portion over 12 years or more depending on whether we look at Chile or not. So you are looking at probably the beginning of the reduction sometime after 2006.

Senator NELSON. Mr. Chairman, you have been very generous and you are very kind so that I could go on to my next meeting. And I am grateful to you.

I will submit a bunch of other things for the record, and just conclude by saying that I am a free trader and I vote that way. And I articulate that I think it is in the interest of—generally, it is in the interest of consumers, free trade, because of the more quality products at a lower price. But I think here is an aberration to that principle because it would cause a monopoly. It is not just that I want to protect my industry, which I certainly do. I mean, Florida and oranges and citrus are synonymous. We even have a picture of an orange on our license tags, on all of our vehicles. The orange blossom is the state flower. So it is synonymous with Florida.

But beyond that, if we are looking out for the interests of the consumers of America, it would be going exactly in the opposite direction to let Brazil achieve a monopoly. And thank you very much.

Senator COLEMAN. Thank you very much, Senator Nelson, for your participation. I greatly appreciate it and it is very, very helpful.

I will do my questioning in reverse order, and I will pass on you, Mr. LaVigne. I think Senator Nelson has done a very good job of dealing with your testimony.

Mr. Suber, I appreciate the U.S. dairy industry's support of, as you noted, most, if not all, of tariff and non-tariff barriers in the Western Hemisphere. You made a particular point in talking about the Canadian situation. What do we do to bring Canada to the table? What advice do you have for USTR? What tools would you use to make that happen?

Mr. SUBER. I thank you for asking that particular question because that is the same focus that Ambassador Johnson talked about in his discussion and Senator Nelson just had with the citrus industry, which in this case is to make sure that Canada does not take things off the table. I understand the discussion on citrus, but in the area of dairy, Canada has been able to do that in every single one of its agreements and we must simply be clear that Canada is obliged to include this industry. As it wants to push its beef, and its grains, and its lumber exports within an FTAA, they must be willing to take reciprocal trade in dairy products, and we must just insist that it is included.

Senator COLEMAN. I thank you very, very much, Mr. Suber.

Mr. Frederickson, though you have indicated in your testimony, you said the NFO would not be opposed to trade agreements, but then laying out a very serious series of conditions and qualifications. I just ask very, very candidly: Do you realistically see a prospect of NFO—of these conditions being met? Where do we go with the trade issue from your perspective in a realistic sense?

Mr. FREDERICKSON. I do not know about the NFO, but let me speak from NFU, National Farmers Union, perspective.

Senator COLEMAN. Oh, yes. I am sorry.

Mr. FREDERICKSON. NFU has historically supported bilateral agreements as long as they meet the criteria that we have established. Farmers do not trade. Somebody else trades. And so our position has always clearly been: Show us the benefit to American agriculture. Show us that this is a reciprocal agreement, that we all benefit from it. And if we can clearly see that, I think from a producer perspective, Senator, we would be happy to support it.

Senator COLEMAN. I am trying to get a sense of kind of the realistic and practical side. Do you see it happening?

Mr. FREDERICKSON. Well, I traveled last week from South Africa and spent the better part of a week there with my colleagues at the International Federation of Agricultural Producers. There were 81 countries gathered around the table, and they are all quite interested in trading. However, they also have their own private agenda, and they want to move product into the country.

I had a very spirited discussion with colleagues from Australia. And when asked point blank if they felt that there was an opportunity for American producers to participate positively in that agreement, they felt probably not, probably not. So they see it as a one-way street. And so if you are asking if we can support it, I think absolutely we can support it if we can clearly get out of USTR the benefits that we could certainly apply to American producers. That is who we represent. We represent producers.

Senator Nelson indicated it is in the benefit or interest of the consumer. I am here to represent the interest of the farmer. Trading is one thing, but trading for a profit is another. And so we constantly are concerned about the race to the bottom, of being the lowest cost producer in the world. That does not do anything for those small communities that you and I represent across the State of Minnesota and across the country.

Senator COLEMAN. Thank you very, very much, Mr. Frederickson.

Mr. Doud, you talked about NAFTA being a tremendous success story for the U.S. beef industry. Do you expect or do we expect Mexico to export beef to the United States? Do you see that happening?

Mr. DOUD. There is nothing currently that prohibits them from doing so, is the answer to that. I think there is a certain unwillingness for them to do that at this point. I am not sure that there is a whole lot of Mexican beef exported to the United States at this point, but discussions I have had with them I find very curious.

In recent discussions and going back there to have subsequent conversations is the fact that they do not see the marketplace as their salvation and the way for them to, you know, drive profitability. They only see protection in a form of a tariff as their mechanism for maintaining their livelihood. And I think that is a very different philosophy than U.S. ranchers have.

Senator COLEMAN. A question about NAFTA: I am interested in what is it—other than perhaps per capita income increase which you talked about, specifically, is there something else about NAFTA that has created these export opportunities for the United States?

Mr. DOUD. Well, I think what is interesting is the strategy that we have used to drive that situation, and Mexico has used the food, or the hotel and restaurant industry to drive innovation down there. And what is interesting today is they have Costco, and Sam's Club, and Wal-Mart in Mexico City just like we have in Washington, DC or in Minneapolis. And those industries are at the retail level driving innovation and change in that market just as they are in this market. And consumers are rewarding that.

And so we see innovation at the restaurant level which is driving consumer demand, and we are striving very hard to meet the demand of the consumer in Mexico.

Senator COLEMAN. Thank you very much.

Mr. Quackenbush, may I ask you a personal question, if I can? Do you have kids?

Mr. QUACKENBUSH. Yes, I have four.

Senator COLEMAN. Because you started your testimony talking about your dad, why he chose to be a farmer. Do your kids want to farm or are they in farming?

Mr. QUACKENBUSH. My oldest son is working in the pork industry in southern Nebraska. He is actually managing a stud——

Senator COLEMAN. Is he—are you optimistic about your kid's future in the pork industry?

Mr. QUACKENBUSH. Yes, I guess, as a farmer, I am an eternal optimist.

Most of us have to be. But I think there is opportunity for young people, especially in the pork industry. It is one of those industries that offers a great opportunity for people to enter agriculture.

Senator COLEMAN. All right. Your testimony is very clear about the vulnerability now. I have seen that certainly in Minnesota. I have seen that vulnerability over time. I am not going to ask you any questions at this point in time. Clearly, I have great concern about the actions of Mexico. I have great concern about the antidumping case, about the possibility of antidumping duties on U.S. pork exports, and others within this body share that concern. So I just want you to know that the issues you raised are—we are looking at those. We are raising the concerns. We are voicing those. And hopefully, those concerns will be addressed.

So I am optimistic also. I was an urban mayor. My favorite quote is David Ben-Gurion, first Prime Minister of Israel who once said, "Anybody that does not believe in miracles is not a realist." I am always uplifted by the optimism of our producers and growers in spite of the great challenges.

And I think what we have seen today is a vision of opportunity if things are done the right way. And the right way may be different for citrus than it is for pork, and than it is for beef, and across the board.

I want to thank all for being here. Thank you for appearing before the subcommittee.

And now without objection, the record of today's hearing will remain open for 14 days to receive additional material and supplementary written responses from witnesses to any questions posed by a member.

This hearing of the Senate Subcommittee on Western Hemisphere, Peace Corps and Narcotics Affairs is now adjourned.

[Whereupon, at 5:45 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

RESPONSES TO ADDITIONAL QUESTIONS FOR THE RECORD

RESPONSES OF U.S. DEPARTMENT OF AGRICULTURE, COORDINATED WITH THE OFFICE OF UNITED STATES TRADE REPRESENTATIVE, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR BILL NELSON

Question. Florida growers do not receive subsidies, and rely solely on the orange juice tariff to offset the history of unfair advantages enjoyed by a small number of foreign producers, all located in Brazil. What is the administration doing to address these unique trade situations that do not fit the typical "free trade" agenda of reducing or eliminating tariffs that will increase trade and competition, while decreasing costs to the consumer? Is this being addressed in the FTAA negotiations and in the Doha round?

Unlike most sectors, the elimination of the tariff on Brazilian orange juice is more likely to have exactly the opposite effect intended—cause monopolization of the global citrus industry, and higher consumer prices, rather than increasing U.S. exports or lowering consumer prices. This is because so few Brazilian producers dominate world production, with the vast bulk of consumption centered in the United States and European Union. Don't these unique economic factors support maintenance of the current tariff in this sector? What has been the Brazilian government's response when approached on these issues? How do you expect the situation to be resolved? Does this matter have the personal attention of Ambassador Zoellick and President Bush?

Answer:

CLOSE CONSULTATION WITH FLORIDA CITRUS PRODUCERS

The Administration recognizes the extreme sensitivity of Florida citrus producers to imports of Brazilian orange juice. USTR and USDA officials have discussed this issue frequently with representatives of the Florida citrus industry. For example, Ambassador Zoellick and USTR negotiators have met recently with representatives of the Florida citrus producers to discuss our approach to the Free Trade of Area of the Americas (FTAA) and other FTA market access negotiations. And, Secretary Veneman met recently with the Florida Agricultural Trade Task Force (FATTF) to discuss their concerns regarding trade liberalization. To ensure that we continue to coordinate closely with Florida producers as the negotiations progress, USTR and USDA will continue this dialogue with Florida producers, including those represented on the Agricultural Technical Advisory Committee (ATAC) on Fruits and Vegetables, the Agricultural Policy Advisory Committee, and the FATTF.

We have tabled comprehensive market access offers on agricultural and industrial products in the FTAA and the CAFTA—i.e., all tariffs are subject to negotiation. We have made it clear that we expect our trading partners to do the same. If we were to ask for product exclusions, the market access negotiations would quickly unravel, as other countries would exclude their import sensitive sectors, including those of interest to U.S. agricultural exporters. This is not in the interest of U.S. agriculture (one in three U.S. farm acres is planted for export; 25 percent of all U.S. cash receipts for agriculture come from export markets), nor is it in the interest of Florida agriculture.

BENEFITS OF TRADE LIBERALIZATION (INCLUDING IN THE WTO) FOR FLORIDA'S AGRICULTURAL EXPORTS

Florida agriculture has an interest in improved access to foreign markets. Florida exports over $525 million in fresh and processed fruits, including grapefruits and grapefruit juice; nearly $150 million in fresh and processed vegetables; over $100 million in meat, live animals, and poultry.

Tariff liberalization in bilateral and regional FTAs is aimed at advancing progress on tariff liberalization in the WTO. At a minimum, providing more open markets globally for Brazil and others could diminish the attractiveness of the U.S. market.

The U.S. tariff on grapefruit is 14.5 percent and on grapefruit juice 24 percent, while the world average is 60 percent on grapefruit and 56 percent on juice. Under the Swiss 25 formula, which the United States has proposed in the WTO, the U.S. grapefruit tariff would fall to 8 percent, and the juice tariff would go to 10 percent, while world grapefruit tariff on both grapefruit and juice would fall to 15 percent. Our WTO market access proposal would bring the 51 percent WTO average tariff on orange juice down to 14 percent.

MULTIPLE TOOLS FOR ADDRESSING IMPORT SENSITIVITIES IN FTA NEGOTIATIONS

In comprehensive market access negotiations, we have multiple tools for dealing with our most sensitive products, including long tariff phase-out periods. In the FTAA, the CAFTA, and the U.S.-Morocco FTA, the phase-out periods range from immediate to more than ten years. In our FTA with Chile, most of the orange juice lines, including frozen concentrated orange juice (FCOJ), are subject to 12-year phase-outs—the longest phase-out period provided under the Agreement. Long-term phase out periods is one of the options in our "tool box" for our current negotiations.

In the Chile FTA, FCOJ was subject to non-linear, or "backloaded," tariff cuts. This is another approach in our "tool box" to ensure that our producers have time to adjust to new market conditions.

In addition, we included in the U.S.-Chile FTA, and are proposing in our current negotiations (FTAA, CAFTA, and Morocco), a special agricultural safeguard. This safeguard provides for a temporary increase ("snap-back") in tariffs to protect against unusually low import prices during the period when tariffs are being reduced. The safeguard is price-based and automatic, thereby providing immediate relief for import sensitive products subject to the safeguard. Although we have not yet identified our list of products eligible for this safeguard in these negotiations, FCOJ would be a logical candidate.

In our agreement with Chile, we also used a tight rule of origin on orange juice ("out of the tree/into the juice") to ensure that Brazil could not benefit from the tariff reductions agreed with Chile. This was the rule of origin used for orange juice in the NAFTA, and we plan to use this rule in all our FTAs.

Finally, in all our negotiations, we will reserve the ability of the United States to rigorously enforce its antidumping and countervailing duty laws. This means that antidumping and countervailing duties will not be affected by any market access commitments that occur as a result of an ETA, the ETAA, or WTO negotiations. In past years, Brazilian exports of FCOJ were subject to both a countervailing duty order and antidumping duties. The countervailing duty order on Brazilian FCOJ was revoked, effective January 1, 2000. The antidumping order, first issued in 1985, is still in place.

We have had discussions with Florida citrus producers on the structure of the Brazilian industry and possible changes in that structure with tariff liberalization. We will continue to explore these matters, including with the Brazilian Government. As stated above, Ambassador Zoellick and Secretary Veneman have met personally with representatives of the Florida citrus industry.

Question. Many countries have excluded sensitive products entirely from tariff reductions under free trade agreements that comply with WTO rules. Isn't it inconsistent for the administration to accept other countries' product exclusions from Free Trade Agreements, but also insist on all U.S. imports being covered by FTA tariff elimination—even those that affect efficient and highly import sensitive industries?

Answer. The United States' approach to ETA market access negotiations has been and is a comprehensive one, i.e., all tariffs are subject to negotiation. If we were to agree to allow product exclusions due to our import sensitivity, our negotiating partners would request their own exclusions, thereby taking off the table tariff liberalization that will benefit U.S. agricultural exports. We have a variety of tools within the context of comprehensive ETA negotiations for dealing with import sensitivities. For example, we have and will continue to make use of the longest tariff phase-out schedule for our most sensitive products—more than ten years for the ETAA, CAFTA, and U.S.-Morocco ETA negotiations. In our ETA with Chile, our most sensitive products are subject to a 12-year phase-out—the longest provided for under the Agreement. We also can use other tools such as non-linear tariff cuts, an agricultural safeguard, tight rules of origin, and rigorous enforcement of our unfair trade laws. These tools are aimed at: (1) helping our most import sensitive producers adjust over time to changes in market conditions, including by safeguarding them against low-priced imports; (2) preventing non-ETA countries from benefiting from preferences afforded our ETA partners; and (3) ensuring that our most import sensitive agricultural (and other) products are traded fairly.

Question. While the administration delays its decision for the location of the permanent Secretariat of the FTAA, other countries like Panama, Mexico and even Brazil are jockeying for it. Though Miami would be a natural selection, the administration still has not selected its preferred site. This has already cost the United States valuable time in trying to bring this trade headquarters here, a place that would be very friendly to negotiations. Why? When will the administration come to a decision on the location of the Secretariat?

Answer. Successful completion of this Agreement will benefit American businesses and workers by providing access to the markets of the Hemisphere. The obligations of the Agreement are still under negotiation, and an institutional structure required to facilitate implementation of those obligations has not yet been proposed. While the Administration supports the idea of having the permanent secretariat located in the United States, the FTAA Ministers have not even begun to discuss the process for selecting the site, nor identified the parameters for the institutional structure. It therefore is premature for the U.S. to designate one city as the U.S. candidate for the home of the permanent secretariat. We do not anticipate our making such a choice until after the Ministerial meeting in Miami in November.

In the interim, various cities, including two in the United States, have taken opportunities to make their arguments for their candidacies as the host of the Secretariat to various senior officials in the ETAA governments.

Question. What is the administration doing to protect intellectual property rights in a possible FTAA and CAFTA? What commodities view this issue as a most salient one?

Answer. The intellectual property rights (IPR) provisions in the ETAs strive to build upon existing international standards such as the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPs Agreement) to ensure that effective IPR protection, including patent, copyright, trademark, and trade secret protection is available for U.S. products in overseas markets.

Of particular significance to agricultural interests are U.S. proposals that have been developed to ensure fairness in the treatment of geographical indications (GIs) and trademarks. A systematic, IPR-based approach to GIs will ensure that the rights of both trademark and GI owners are respected and preserved.

Question. When will the President send the U.S.-Chile trade agreement to the Congress for approval? The perception of the international community is that the administration is playing politics with this agreement, in effect punishing Chile, an important member of the U.N. Security Council, for its past position on the Iraq war. Would you comment on that?

Answer. Ambassador Zoellick and Chilean Foreign Minister Soledad Alvear signed the U.S.-Chile ETA in Miami on June 6, 2003. The President is required to send Congress a list of changes to existing laws that are necessary to comply with the ETA within sixty days from the date of signature. On June 10, Deputy USTR Peter Allgeier testified before the Ways and Means Committee regarding the approval and implementation of the Agreement and on June 17, he also participated in a hearing on the U.S.-Chile and U.S.-Singapore FTAS before the Senate Finance Committee. We are consulting with the Congress on implementation of these Agreements and our plans for submitting the implementing bills and supporting documentation for these agreements with the objective of obtaining expeditious consideration and approval of the bills.

Question. What unresolved issues exist with respect to U.S.-Mexico sugar and tomato situations?

Answer. Mexico and the United States disagree over the formula that determines Mexico's access under the NAFTA to the U.S. sugar market. Mexico has also imposed a tax on the use of high fructose corn syrup which severely restricts U.S. exports and raises serious questions regarding its consistency with Mexico's WTO and NAFTA obligations. The two governments remain engaged on these related issues. USTR has consulted closely with U.S. sugar producers throughout this process. While differences remain, all U.S. sweeteners producers agree the issues should be resolved through negotiation. We hope to continue discussing these issues with Mexico after its Congressional elections in July.

There are no outstanding issues on tomatoes. A new suspension agreement went into effect on November 8, 2002.

Question. We learned from NAFTA that side agreements, like those on tomatoes, are not binding. What can be done to prevent future situations with citrus in the FTAA and CAFTA?

Answer. In the case of NAFTA, we did not conclude a "side agreement" with the government of Mexico on tomatoes. Rather, USTR sent letters to Florida tomato producers making U.S. Government commitments on a number of matters. USTR believes that those commitments have been fulfilled. Perhaps more importantly, Florida growers are satisfied with a suspension agreement with Mexican importers that imposes minimum price requirements on imports of most Mexican tomatoes.

Mexico's share of fresh and chilled tomatoes imported by the United States fell from 93 percent in 1993, the year before the NAFTA was implemented, to 69 percent in 2002.

With respect to other agreements that the Administration might conclude and seek to implement through TPA procedures, the Trade Act (section 2105(a)(4)) requires disclosure of any agreement or understanding with a foreign government if that agreement or understanding is to be considered part of the agreement that Congress approves in any implementing legislation.

RESPONSES OF ANDREW W. LAVIGNE, EXECUTIVE VICE PRESIDENT AND CEO, FLORIDA CITRUS MUTUAL, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR BILL NELSON

Question 1. Please explain the economic impact the Florida Citrus industry has on the domestic economy.

Answer. The economic impact of the Florida citrus industry during crop year 1999-00 was estimated by economists at the University of Florida at $9.13 billion in industry output, $4.18 billion in value-added activity, and 89,778 jobs.[1] The total value-added figure includes wages earned by industry employees, income to business owners, and business taxes paid. The value-added figure of over $4 billion, thus, represents the net economic contribution by the Florida citrus industry to the U.S. economy.

These citrus figures represent approximately 15 percent of the output, 14 percent of the value-added, and 14 percent of the employment of all Florida agricultural and natural resource industries.[2] Recognizing that Florida is a large agricultural producer with abundant natural resources, these percentages are remarkable. Furthermore, in some Central and South Florida counties, where the citrus industry is concentrated, citrus output, value-added and employment represent nearly all of the overall agricultural and natural resource output, value-added and employment. Grove closures in these counties would prove particularly devastating.

The economic impact of the Florida citrus industry is felt well outside of the groves. When orange groves fail, the following upstream and downstream suppliers to the citrus industry suffer grave consequences:

- nurseries that supply replacement trees to citrus groves,
- suppliers of fertilizer, fungicide, herbicide and insecticide to citrus groves,
- suppliers of irrigation and spraying systems, mechanical harvesters, farm implements, and grove clothing,
- financial institutions, especially merchant banks that have citrus exposure,
- insurance companies that serve the citrus industry,
- freight companies that haul citrus to processing plants and packing houses,
- extraction, canning and concentrate plants that process juice from Florida oranges, and
- citrus packinghouses.

Since the land on which processing oranges are grown consists of very sandy soil with little agricultural value outside of citrus production, and since the volume of all other fruit juices extracted in the United States combined pales in comparison to orange juice, the above industries could not exist if orange juice production were no longer viable.

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[1] Alan W. Hodges, et al, "Economic Impact of Florida's Citrus Industry, 1999-2000," *Economic Information Report,* EIR 01-2, University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001, p. 13.

[3] Alan W. Hodges and W. David Mulkey, "Regional Economic Impacts of Florida's Agricultural and Natural Resource Industries," University of Florida, Food and Resource Economics Department, revised April 1, 2003.

The fact that Florida's citrus land has no practical alternative land utilization is demonstrated by the current divergence between the value of Florida citrus land and land for other uses. Between 2000 and 2002, the value of citrus land planted with mature orange trees fell by 20 percent in South Florida and by 21 percent in Central Florida.[3] At the same time, the value of irrigated cropland increased by 14 percent in South Florida and by 16 percent in Central Florida, and the value of improved pastureland increased by 23 percent in South Florida and by 22 percent in Central Florida. While some of this lost real estate value may have been caused by the prevalence of citrus canker, especially in South Florida, a good portion of the lost value can be attributed to the continual pricing pressure caused by the presence of Brazilian juice on the global market, as well as the ongoing threat of catastrophic tariff reductions under the FTAA.

Question 2. Many U.S. agricultural commodity sectors are seeking greater foreign market access in either FTAs or multilateral trade negotiations. What makes the citrus industry and market unique with respect to trade and market access policies?

Answer. The global orange juice industry is highly unique. World consumption of commercially processed orange juice is concentrated chiefly among only 2 regions: the United States and the European Union. This pattern is dictated by both consumer preferences and disposable income levels. In lower income countries, orange juice is often fresh-squeezed in the household, not purchased. While processors of Florida oranges are enthusiastic about the potential for growth in export markets, foreign tariff reduction is not a "silver bullet." The reduction of foreign orange juice tariffs will not necessarily open the gates for U.S. juice exports to liberalizing countries if they have historically low demand for commercially processed juice.

The second unique characteristic of the global orange juice industry, which influences our ability to export orange juice, is the concentration of orange juice production among only 2 countries: Brazil and the United States. Brazil's production is controlled by 5 very large processors,[4] which control roughly 80 percent of Brazil's FCOJ production. Given that they also operate and control Brazil's tank ship distribution system, these companies indirectly control nearly all of Brazil's FCOJ exports, which represent approximately 75 percent of world FCOJ exports. The large Brazilian processors benefit from advantages brought by past subsidization and dumping, lax environmental protection, weak and largely unenforced labor laws, frequent national currency devaluation (which reduces the relative cost of production inputs and provides false incentives to overproduce), and oligopoly price manipulation. The long-term annual average trend in the price of Brazilian orange juice exports has been downward during the past decade and a half. Such constant downward price pressure in foreign markets makes the exporting of U.S. orange juice nearly impossible.

The Brazilian oligopoly dominates the EU orange juice market, oftentimes selling at prices that appear to be well below their cost of production. The only juice processors in the United States that can afford to export to the EU are those receiving U.S. import drawback incentives to do so. Typically, these U.S. processors, blenders and reprocessors are Brazilian-owned and operated and, therefore, able to utilize Brazil's tanker distribution network to transport the juice from the United States to the EU. Since the liberalization of EU tariffs within a multilateral agreement would benefit the Brazilians as well, there is little utility in such liberalization. Any reciprocal tariff reduction agreement, even one that includes the EU, will always be very limited in value from a U.S. orange juice exporter's perspective. In addition, any reciprocal tariff reduction agreement that includes Brazil will always be devastating from a U.S. orange grower's perspective.

Question 3. Would tariff reductions in a multilateral or regional context create more exporting opportunities for Florida orange juice, and create more demand by lowering prices to the consumer?

Answer. In response to the first part of this question, theoretically, the reduction of the EU orange juice tariff is of more value than the reduction of Latin American orange juice tariffs, because there is far greater demand for commercially processed orange juice in the EU than in Latin America. However, as explained above, to the

[3] John R. Reynolds, "Citrus Land Values Decline as Other Land Values Increase: 2001 Survey Results," No. 147, July-August 2001, and "Agricultural Land Values Increase as Citrus Land Values Decrease: 2002 Survey Results," No. 150, July-August 2002, Cooperative Extension Service, Institute of Food and Agricultural Sciences, Florida Food and Resource Economics, University of Florida.

[4] These dominant Brazilian processors are Cargill Citrus Ltda., Citrosuco Paulista S.A., Citrovita Agro Industrial Ltda., LouisDreyfus Citrus S.A., and Sucocitrico Cutrale Ltda.

extent that foreign tariff reductions apply to Brazilian juice as well as Florida juice, they will probably not create significantly more exporting opportunities for Florida orange juice. Of utmost importance, if the U.S. tariff on Brazilian juice is reduced in the process of obtaining any foreign tariff concessions on orange juice, then the Florida citrus industry will not survive long enough to reap any of the benefits of the foreign tariff concessions.

In response to the second part of this question, since the mid-1990s, U.S. wholesale orange juice prices and U.S. import unit values of orange juice have not been linked to consumer orange juice prices. In fact, they actually appear to be moving in opposite directions. As U.S. orange juice tariffs declined 15 percent between 1994 and 2000 under the Uruguay Round Agreements, the global bulk wholesale juice price (represented by the price of the nearby FCOJ futures contract) fell by 21%[5] and the U.S. landed, duty-paid import unit value of Brazilian bulk FCOJ fell by 22 percent.[6] During this same period, the price of the finished product to consumers rose by 19% for frozen orange juice and by 24% for chilled, reconstituted juice.[7] The reason for this complete disconnect between retail prices and underlying juice costs is that a highly concentrated global industry dominated by a single country with almost limitless cheap resources will take full advantage of any declining constraint on its power, represented by tariff cuts, to minimize its competition and maximize its profits at the expense of consumers. This is classic monopolistic behavior. Since Brazil dominates the entire world orange juice market, we do not expect retail consumers of orange juice in the EU, the United States, Japan or anywhere else to benefit from tariff reductions. On the contrary, any reduction in the U.S. tariff on Brazilian orange juice would eliminate the Brazilian oligopoly's last competitor, the Florida citrus industry. As Brazilian processors amass greater and greater global market power, final consumers worldwide would eventually suffer the consequences of unrestrained orange juice prices.

Question 4. How does the Florida citrus industry compare to other agricultural sectors in the way it is treated under the Farm Bill? Does the industry receive subsidies?

Answer. The U.S. industry that grows oranges for processing does not receive any WTO-designated "amber box" trade-distorting domestic subsidies. The most recent WTO notification that the United States made on domestic agricultural subsidies showed that, in marketing year 1999 the United States provided $16.9 billion in production and/or trade-distorting "amber box" subsidies to 29 non-citrus U.S. agricultural industries.[8] According to the Economic Research Service of USDA, under the current Farm Bill, non-citrus U.S. agriculture is now receiving over $20 billion annually in direct government payments, while the citrus industry does not receive any direct government payments.[9] The subsidies that U.S. non-citrus agricultural industries receive have ranged above 40 percent of their net farm income for several years.[10] Under the Farm Bill, U.S. citrus qualifies only for certain types of "disaster assistance," which is considered a non-trade-distorting "green box" subsidy within the WTO. In the absence of trade-distorting subsidies, the tariff is our industry's only means of maintaining prices at a level that permits growers' survival. Aside from the tariff and enforcement of the unfair trade laws, there is no safety net.

FCM does not take issue with U.S. agriculture's receipt of subsidies. We know only too well the difficulties involved in competing against heavily subsidized EU commodities (e.g., Spanish clementines) and unfairly traded Brazilian commodities. However, we believe it is unfair to suggest that taxpayer-funded support payments are a more acceptable or less distorting means of government support than a non-taxpayer funded, pro-competitive tariff. FCM believes that the U.S. tariff on orange juice is an "agricultural offset," parallel in some ways to those that U.S. taxpayers fund directly for other farm commodities, but tailored for an industry whose chief market is in the United States. The beauty of this "tariff program" for orange juice is that it does not tap taxpayer dollars. It places a limited burden on the unfair or

[5] FCOJ annual average nearby futures settlement prices, New York Board of Trade, compiled by FDOC-EMRD.
[6] Official trade data from the U.S. Department of Commerce.
[7] ACNielsen retail OJ sales in grocery stores with annual sales over 2 million dollars.
[8] "Notification concerning domestic support commitments for marketing year 1999," received from the delegation of the United States on December 23, 2002, WTO Committee on Agriculture, G/AG/N/USA/43.
[9] "Farm Income and Costs, Direct Government Payments," ERS, USDA (http://www.ers.usda.gov/briefing/farmincome/data/GP—T7.htm).
[10] "Farm Income Forecast," ERS, USDA. Source: "Farm Income Forecast," ERS, USDA (http://www.ers.usda.gov/Data/FarmIncome/finfidmu.htm).

oligopolistic market players, Brazilian processors, which is where the burden belongs; and has a net positive impact on the federal budget.

Florida orange growers are not the only U.S. agricultural industry pitted against the unfair advantages of Brazil's agricultural exports; however, because of their dependence on tariffs as opposed to subsidies, they are one of the few industries that the U.S. FTAA proposal threatens with demise. U.S. soybean farmers claim that on account of Brazil's currency devaluation, they were receiving 40 percent less for their soybeans in 2002 than in 1997, while Brazilian farmers were receiving over 36 percent more.[11] Brazil is the world's second largest soybean producer after the United States, so this is very significant. However, soybeans are consumed throughout world and new export markets are highly sought after by the U.S. industry. So, it makes sense that the U.S. soybean industry contends with the unfair advantages of Brazil's devaluation chiefly via domestic subsidies. While subsidies are used to help level the playing field for agricultural industries whose top markets are abroad, tariffs are used to level the field for industries, like orange juice, whose top markets are in the United States.

FCM believes that the Administration's FTAA proposal on agriculture is lop-sided to the extent that it puts all U.S. agricultural tariffs on the table, while leaving all domestic subsidies off the table. In so doing, the Administration's proposal effectively, if unwittingly, singles out agricultural industries for demise based exclusively on the location of their markets, without consideration of the effect on the U.S. economy.

Question 5. Please explain to the committee the differences in labor and environmental aspect of the citrus trade between the United States and Brazil? Do these differences affect the prices at which Brazil is able to sell juice?

Answer. There are many differences in labor and environmental practices between the United States and Brazil, and these differences allow Brazil to sell its juice at rock-bottom prices throughout the world. Brazil's orange juice processing oligopoly is a highly industrialized, state-of-the-art industry that resides in a developing country where it can exploit the underdeveloped economic, political, and social conditions that persist there.

It is a well-documented fact that the Brazilian citrus industry is not subject to enforcement of the same child labor laws and other labor standards that are enforced in the United States. In its 1998 report to Congress,[12] the U.S. Department of Labor reported,

> The harvesting of oranges also presents its own unique dangers. According to Brazilian welfare groups and unions, close to 150,000 children are employed during the country's six-month orange harvesting season. They pick oranges in severe heat for as long as 12 hours a day. The children's hands are dyed green and their fingertips are sometimes eroded by citric acid from the oranges and toxic pesticides sprayed even while children are in the orange groves. In some cases, damage to their fingertips is so severe that children are later refused identification cards due to a lack of fingerprints.[FN]

The U.S. Department of State reports in its *1999 Country Report on Human Rights Practices in Brazil:*[13]

> A report published by the Sergipe state government in 1997 stated that 10,000 children and adolescents between the ages of 6 and 18 were part of the labor force in the orange-growing region, with 54 percent between the ages of 7 and 14.

Without competition-equalizing tariffs, U.S. orange growers cannot and should not be made to compete with an exploitative foreign industry.

Brazil ratified International Labor Organization (ILO) Convention No. 138 on the Minimum Age for Employment on June 28, 2001, and ILO Convention No. 182 on the Worst Forms of Child Labor on February 2, 2000. In addition, Brazil's Ministry of Welfare and Social Assistance (MPAS) has listed the harvesting of oranges among

[11] "ASA Emphasizes Importance of Maintaining $5.26 Soybean Loan Rate to Help Offset Effects of Currency Devaluations in Argentina & Brazil," American Soybean Association, January 7, 2002 (http://www.soygrowers.com/newsroom/releases/2002%20releases/r010702.htm).

[12] *By the Sweat & Toil of Children, Volume V: Efforts to Eliminate Child Labor,* U.S. Department of Labor, 1998 (http://www.dol.gov/dol/ilab/public/media/reports/iclp/sweat5/).

[13] Released by the Bureau of Democracy, Human Rights, and Labor, U.S. Department of State, February 25, 2000.

the "worst forms of child labor" in Brazil.[14] However, as of March 2003, legislation that would fully implement these Conventions has still not been made law in Brazil.

There are a few rather weak anti-child labor laws on the books in Brazil. For instance, under the Brazilian Federal Constitution, employing children under the age of eighteen to work at night or in "any dangerous or unhealthy job", and employing children under sixteen, unless they are apprentices, is punishable by a $320 fine.[15] However, the practice of child labor remains rampant in Brazil's citrus industry, either because the fines are too low to be a deterrent or the laws are simply not being enforced. Even if Brazil eventually strengthens its anti-child labor laws, lack of enforcement will render the laws powerless.

The Western Hemisphere's heads of state agreed at the Third Summit of the Americas to "promote compliance with internationally recognized core labor standards." [16] The Inter-American Conference of Ministers of Labor (IACML), which was set up to implement the labor-related mandates of that Summit, produced the "Declaration and Plan of Action of Ottawa" during their October 2001 meeting. This Declaration says, "We will work to bring all national laws, regulations and policies into conformity with this convention [No. 182] and will take immediate action to eliminate the worst forms of child labor." [1717]

In addition, the U.S. Department of Labor's International Child Labor Program has contributed $112 million, since 1995, towards the International Labor Organization's International Program on the Elimination of Child Labor.[18] Rewarding Brazil's exploitative orange juice industry with a reduction in U.S. orange juice tariffs would not only contradict a decade of effort by the U.S. Department of Labor, it would contradict the current Administration's own trade agenda, while punishing U.S. orange growers who obey the stringent labor laws of the United States.

The Florida Division of Agriculture and Consumer Services (as required by the U.S. Department of Labor) conducted 2,700 Worker Protection Standard (WPS) inspections in the State of Florida during 2000. Approximately half of these inspections were to ensure the protection of workers in citrus groves.[19] The labor standards in Florida orange groves are high and heavily regulated by State and Federal agencies. Minimum age and wage regulations are rigorously enforced. Field workers and harvesters are subject to a schedule of routine training to ensure safe operation of mowing, pruning and harvesting equipment. They are also trained to ensure safe use and mixing of field chemicals such as pesticides and fungicides, etc. They are required to wear appropriate protective gear in the groves and to observe strict rules for re-entering the groves after chemical applications. Grove owners are also required to meet stringent housing standards for their field and harvesting workers who require housing, such as migrant workers from abroad employed under the H2A program. We are not aware of any such regulations being enforced in São Paulo, Sergipe or other citrus growing regions in Brazil.

In addition, Florida orange growers are held liable for any degradation to the land, water or air that may result from their operations. They are required to use field chemicals in compliance with the environmental regulations and warnings on their labels. They are also responsible for protecting surrounding land and water from fertilizers and chemical run-off. Pursuant to the run-off regulations, many growers in South Florida must dedicate on average 20 percent of their acreage to retention ponds and ditches that prevent run-off and allow for the safe treatment of grove water. Brazil's environmental standards for citrus groves are considerably more lax, if existent at all.

Florida orange growers are also prevented from using a number of generic-brand field chemicals that are readily available in Brazil. In the United States, the process of getting generic field chemicals registered is much more lengthy and expensive than in Brazil, because EPA has more stringent requirements and the chemicals must undergo more rigorous testing to ensure their safety than in Brazil. In Brazil, the average cost of registering a generic field chemical is about $45,000 to $100,000. Whereas in the United States, such registration costs are in excess of $5,000,000. The end result is that U.S. grove owners are forced to use the more expensive brand

[14] U.S. Embassy-Brazil, unclassified telegram no. 001439, September 18, 2000. Reported by the U.S. Department of Labor at http://www.dol.gov/ILAB/media/reports/iclp/Advancing1/html/brazil.htm.

[15] "Child Labor Law Changes in Brazil," Global March Against Child Labor, Jan. 25, 1999, http://www.globalmarch.org/cl-around-the-world/child-labor-law-changes-in-brazil.html.

[16] Statement of The Honorable Robert B. Zoellick, United States Trade Representative, Testimony Before the Full Committee of the House Committee on Ways and Means, Feb. 26, 2003.

[17] "Declaration and Plan of Action of Ottawa," XII Inter-American Conference of Ministers of Labor, OEA/Ser.L/XII.12.1, COTPAL/doc.3/01, Oct. 19, 2001.

[18] Http://www.dol.gov/ILAB/programs/iclp/about—iclp.htm.

[19] Estimate by economists at Florida Citrus Mutual.

name chemicals which have already been registered with EPA, while Brazilian grove owners are able to cut costs substantially by using generic chemicals that have not yet been proven safe in the United States.

Lax, unenforced and nonexistent labor, environmental and health and safety laws are, however, not the only reason why Brazil is able to sell its orange juice at such low prices. Ronald Muraro and Thomas Spreen at The University of Florida recently calculated comparative cost of production estimates for processed oranges in Florida and São Paulo, Brazil. They estimate that in crop year 2000/01 labor costs (including wages, salaries and social taxes) were 45 cents/box in Florida and only 17 cents/box in São Paulo.[20] A substantial portion of this wide discrepancy is due to the many currency devaluations Brazil has experienced during the last few decades.

Brazil's orange juice export sales to all markets are denominated in U.S. dollars. When the Real is devalued, the cost of labor and other domestic production inputs, which are denominated in Real, become cheaper relative to the price paid for the orange juice. For instance, in marketing year 1996/97, the currency conversion was $1.04 Real = $1 U.S. As of July 1, 2002, the conversion was $2.84 Real = $1 U.S.[21] Thus, a unit of labor that cost $1 Real or 96 cents U.S. in MY 1996/97, would only cost 35 cents U.S. on July 1, 2002. So the cost of grove labor as a percentage of the export price of Brazilian orange juice shrinks each time the Brazilian Real loses value against the U.S. dollar, thus, increasing the profit margin obtained by the Brazilian processor. The increase in profits then sends false market signals throughout the Brazilian citrus industry causing it to overplant and overproduce. The overproduction gives way to lowered international orange juice prices, which reduce the value of Florida's processing oranges and diminish growers' profits. However, further devaluation prevents the Brazilian industry from feeling the squeeze of lower international prices, and the cycle continues. This is just one more way the Brazilian orange juice oligopoly is able to benefit from residing in a country with an underdeveloped and inflationary economy.

In an ideal free market world economy where basic and equivalent labor, environmental, and health/safety laws exist and are enforced, where world production and prices are not controlled by a single oligopolistic industry, and where currency devaluations do not tip the scales dramatically in favor of the foreign exporters, the law of natural advantages might outweigh arguments for tariff protection. But the Florida agriculture sector in general, and citrus in particular, cannot defer to that logic, because Brazil's advantages are not "natural" and the playing field is grossly skewed. The tariff is the only offset on which this unsubsidized U.S. industry can rely to counter these "unnatural" advantages.

Question 6. As you know, Florida has had a country-of-origin labeling program in place since 1979 in your opinion has the citrus industry benefited from the program? Why do you and Florida Citrus Mutual support implementing a nation-wide country-of-origin labeling system?

Answer. We believe the citrus industry does benefit from the origin identification of fresh fruit at the point of purchase. Florida has a reputation for quality which is enhanced when the consumer is able to identify the product's origin. Of course, any such origin identification requirement should not create unnecessary burdens to handlers and retailers, which might increase the cost to consumers. Therefore, we support a reasonable national origin labeling requirement which does not press significant administrative burdens and handling costs on distributors and retailers. Processed citrus juice is likewise identified as to country of origin under U.S. Customs regulations. Foreign origin juice must be identified on the consumer container, and blended juice must identify the origins of all the ingredients on the label. This not only permits consumers to educate themselves as to the source of their food purchases, but also enhances the commercial value of "Florida" juice versus juice originating elsewhere.

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[20] "Cost for Processed Oranges: A Comparison of Florida and São Paulo," Ronald P. Muraro and Thomas H. Spreen, IFAS, The University of Florida, presented at the Florida Citrus Industry Economics Meeting, July 8-9, 2002.

[21] *International Financial Statistics,* International Monetary Fund.